



Multifamily Selling and Servicing Guide

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TABLE OF CONTENTS

Summary of Changes	16
Part V Chapter 2 Reporting and Remitting	17
Section 201 Generally	17
Section 202 Collection, Tracking and Reporting of Monthly P&I Payments and T&I Amounts.....	17
Section 203 Reporting Loan Activity and Security Balance	18
203.01 Use of Fannie Mae eServicing System	18
203.02 Reporting Specific Transactions	18
203.03 Monthly Activity Reporting	18
203.03 A When to Begin Reporting	18
203.03 B Cutoff Dates for Loan Activity Reporting	18
203.03 C Cash Mortgage Loan – Reporting Remittance Amount	19
203.04 Monthly Securitized Mortgage Loan Security Balance Reporting	19
203.04 A Reporting Security Balances	19
203.04 B Same Month Pooling – Security Balance for First Reporting Cycle	19
203.04 C Security Balances Due by Second Business Day	20
203.04 D Failure to Meet Reporting Deadline	20
203.05 Due Dates for Reports	20
203.05 A Removal Transactions	20
203.05 B All Other Transactions	21
203.06 Mortgage Loan Activity Record	21
203.06 A Payment Collection	21
203.06 B Fee Collection	21
203.06 C Mortgage Loan Status	21
203.07 Reports Generated by Fannie Mae	22
203.07 A MBS Mortgage Loan Reports	22
203.07 B Cash Mortgage Loan and MBS Mortgage Loan Reports	22
203.08 Monthly MBS Mortgage Loan Reconciliations - Pool-to-Security Balance Reconciliations (Not Applicable to PFP MBS)	22
203.08 A Reconciliation Required	22
203.08 B Rounding Adjustment	23
203.08 C Required Annual Adjustment to Correct Principal Balance vs. Security Balance Difference	23
203.08 D Pool-to-Security Reconciliation Certification	23
Section 204 Calculation of Interest Due	24
204.01 Generally	24
204.02 Calculating Interest Due	24
204.02 A Actual/360 Interest Calculation Method	24
204.02 B 30/360 Interest Calculation Method	24
Section 205 ARM Mortgage Loan Interest Rate and Monthly Payment Changes	25
205.01 Adjustable Rate Mortgage Loan Interest Rate Changes and Required	



Monthly Payments	25
205.01 A The Adjustable Rate Mortgage Loan Index	25
205.01 B Determining the New Monthly Payment	25
205.02 Monthly Reporting for ARM Payment/Rate Changes	26
205.03 Structured ARM Loans	26
Section 206 Application of Monthly Payments	27
206.01 Fannie Mae Form Loan Documents	27
206.02 Non-Fannie Mae Form Loan Documents	29
Section 207 Payment Shortages	29
Section 208 Delinquency and Servicing Advances	30
208.01 Generally	30
208.01 A Applicability	30
208.01 B Delinquency Advances on a Mortgage Loan other than a Credit Enhancement Mortgage Loan	30
208.01 C Delinquency Advances on a Credit Enhancement Mortgage Loan	30
208.01 D Servicing Advances on a Mortgage Loan other than a Credit Enhancement Mortgage Loan	32
208.01 E Servicing Advances on a Credit Enhancement Mortgage Loan	32
208.02 Duration of Payment of Delinquency Advances or Servicing Advances	32
208.02 A Obligation to Make Delinquency Advances	32
208.02 B Obligation to Make Servicing Advances	33
208.02 C Reimbursement for Delinquency and Servicing Advances	34
208.03 Repayment of Servicing Advances from Borrower	34
208.04 No Capitalization of Servicing Advances for Securitized Mortgage Loans	35
208.05 Entitlement to Default Interest	35
Section 209 Remittance Procedures	35
209.01 Definitions	36
209.01 A Interest Distribution Amount	36
209.01 B Principal Distribution Amount	36
209.01 C Monthly Remittance	36
209.01 D Remittance Dates	36
209.02 Monthly P&I Remittance Dates for Cash and MBS Transactions	36
209.03 Remittance Dates for Cash Mortgage Loan Payoffs	37
209.04 Use of Cash Remittance System and Requirements	38
209.05 Cash Mortgage Loans – Transmitting the Remittance	38
209.05 A Use of Cash Remittance System	38
209.05 B Required Date for Commencement of Remittance	38
209.05 C Remittance Transaction Codes	38
209.06 Securitized Mortgage Loans – Drafting the Remittance – Funds Drafted under Automated Drafting System (Not Applicable to PFP MBS)	39
209.07 Additional Requirements for Monthly Remittance for Security Transactions	39



209.07 A Amount of Security Monthly Remittance	39
209.07 B Security Interest Distribution Amount	40
209.08 Securitized Mortgage Loans – Remitting Fees to Fannie Mae	40
209.08 A Guaranty Fee Due on 7th Calendar Day of Month	40
209.08 B Guaranty Fee Remittance	41
209.08 C Same Month Pooling – Interest and Guaranty Fee Remittance for First Reporting Cycle	41
209.09 Notification to Fannie Mae if Unable to Have Funds Available on any Remittance Date	42
Section 210 Full Prepayments	42
210.01 Review of Applicable Loan Documents Required	42
210.02 Notification of Prepayment; Timing of Prepayment	43
210.02 A Notice and Timing Consistent with Loan Documents	43
210.02 B Borrower Notice Must Contain Date of Intended Prepayment and Comply with Notice Requirements of the Loan Documents	43
210.02 C Loan Document Requirements for Payoff and Lockout Dates	43
210.02 D Notice to Fannie Mae of Proposed Payoff; Use of Fannie Mae Payoff Calculator	43
210.03 Timing of Confirmation of the Full Prepayment Payoff Amount	43
210.04 Full Prepayment for Cash Transactions and PFP MBS	44
210.04 A Confirming the Full Prepayment Payoff Amount	44
210.04 B Reporting Full Prepayment Payoff Amount	46
210.04 C Remitting Full Prepayment Payoff Amount	46
210.05 Full Prepayment for Securitized Transactions (Not Applicable to PFP MBS)	47
210.05 A Confirming the Full Prepayment Payoff Amount	47
210.05 B Reporting Full Prepayment Payoff Amount	49
210.05 C Remitting Full Prepayment Payoff Amount	50
Section 211 Partial Prepayments Not From Insurance or Condemnation Proceeds	50
211.01 Partial Prepayments Generally Prohibited	50
211.02 Partial Prepayment Procedures	50
211.02 A Servicer’s Analysis of Loan Documents	50
211.02 B Fannie Mae Approval Required for Partial Prepayments	51
211.02 C Prepayment Premium Due on Partial Prepayment	51
211.02 D Reporting and Remitting Partial Prepayments When Not Permitted in Loan Documents	52
211.02 E Reporting and Remitting Partial Prepayments When Permitted in Loan Documents	52
Section 212 Prepayments (Full or Partial) Involving Insurance Proceeds or Condemnation Awards	52
212.01 Partial Prepayments Generally Permitted	52
212.02 No Prepayment Premium Required	52
212.03 Reporting and Remitting Partial Prepayments	52
Section 213 Prepayment Premium Sharing	53
213.01 General	53



213.02 Yield Maintenance Prepayment Premiums – Prepayment Occurs Before the Yield Maintenance Period End Date	53
213.02 A Calculation of Total Prepayment Premium	53
213.02 B Calculation of Investor’s Share of Total Prepayment Premium for a Securitized Mortgage Loan	53
213.02 C Calculation of Fannie Mae’s Share of Total Prepayment Premium	54
213.02 D Calculation of Servicer’s Share of Total Prepayment Premium	54
213.03 Yield Maintenance Prepayment Premiums – Prepayment Occurs On or After the Yield Maintenance Period End Date	54
213.03 A Prepayment On or After Yield Maintenance Period End Date	54
213.03 B Prepayment During Open Period	55
213.04 Fixed Rate Mortgage Loans with Graduated Prepayment Premiums	55
213.05 Prepayment Premiums for ARM Loans and Structured ARM Loans	55
213.06 Prepayment Premium Waivers; Servicer’s Share of Prepayment Premium	56
Section 214 Maturing Mortgage Loans/Payoffs	56
214.01 Balloon Mortgage Loans	56
214.02 Servicer Notification of Payoff Amount to Borrower	56
214.03 Calculating and Obtaining Confirmation of Payoff Amount	57
214.03 A Calculating the Full Payoff Amount	57
214.03 B Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer	57
214.03 C Fannie Mae Confirmation of Full Payoff Amount	57
214.03 D No Quote to Borrower Until Fannie Mae Confirmation	58
214.04 Reporting the Payoff and Remitting the Payoff Funds	58
214.04 A Reporting Full Payoff Amount Through the eServicing System Due By 2nd Business Day of Month	58
214.04 B Remitting Full Payoff Amount	58
Section 215 Post-Payoff Actions	59
215.01 Servicer Required Actions	59
215.01 A General	59
215.01 B Individual Mortgage Loan Releases	60
215.02 Post Payoff Document Retention Requirements	60
Section 216 DUS Bond Credit Enhancement Transactions – Reporting and Remitting Requirements	61
216.01 Monthly Bond Credit Enhancement Reporting	61
216.02 Monthly Remittance Procedures	62
216.02 A Monthly Remittances of Scheduled Payments to Bond Trustee	62
216.02 B Replenishment of Withdrawals from the PRF	63
216.02 C Collection and Remittance of Borrower Reimbursement Obligations for Fannie Mae Advances	63
216.02 D Monthly Remittance of Fees to Fannie Mae	64
216.02 E Notice and Collection of Other Fees and Expenses	64
216.03 Prepayments – General Introduction	64



216.03 A Bond Redemption Premiums Payable to Bondholders	64
216.03 B Termination Fee or Prepayment Premium Payable to Fannie Mae	65
216.03 C Termination When No Prepayment Occurs; Weekly Variable Rate Transactions	66
216.04 Prepayments – Processing	66
216.04 A General	66
216.04 B Prompt Notice of Intended Prepayment	67
216.04 C Critical Path Due Dates	67
216.04 D Fannie Mae’s Confirmation Required	68
216.05 Prepayments: Prepayment Reporting	70
216.06 Prepayments: Remittances	70
216.07 Reporting on Delinquency Status	71
Section 217 Mezzanine Loan Reporting and Remitting	71
217.01 Remitting DUS Plus Mezzanine Loans	71
217.02 Payoffs	72
Section 218 Defeasance	72
218.01 Mortgage Loan Documents Must Permit Defeasance	72
218.02 Borrower’s Election to Defeasance	73
218.03 Defeasance Option Procedures	73
218.03 A Defeasance Documents	73
218.03 B Defeasance Notice	73
218.03 C Defeasance Commitment Fee	74
218.03 D Verification of the Defeasance Notice	74
218.03 E Substitute Collateral	75
218.03 F Assignment and Assumption	75
218.03 G Closing Documents	75
218.03 H Amounts Payable by Borrower	76
218.03 I Defeasance Deposit	76
218.03 J Release	76
218.03 K Fannie Mae Security Liquidated Damages	76
218.03 L Third-Party Costs	77
218.03 M Post Defeasance Closing Date	77
Section 219 Delinquency Reporting and Certification	77
Section 220 Reporting Collateral Balances in Custodial Accounts	78
220.01 P&I Custodial Accounts	79
220.02 Letters of Credit as Collateral	79
220.03 Report on Fair Value Basis	79
220.04 What to Report	79
220.05 When to Report	80
Section 221 Internal Revenue Service Reporting Requirements	80
221.01 What to Report	80
221.02 Filing IRS Form 1099 MISC	81
221.03 Notifying the Internal Revenue Service about Abandonments or Acquisitions (IRS Form 1099-A)	81



221.03 A When Required	81
221.03 B Preparing IRS Form 1099-A	82
221.04 Notifying the Internal Revenue Service about Cancellations of Indebtedness (IRS Form 1099-C)	83
221.04 A When Required	83
221.04 B Determining When a Debt Is Cancelled	83
221.04 C Preparing IRS Form 1099-C	84
221.04 D Exceptions to IRS Form 1099-C Reporting	86
221.04 E Coordination with Reporting Abandonments or Acquisitions	86
221.05 Reporting via Magnetic Media	86
Part V Chapter 3 Custodial Accounts	107
Section 301 Generally	107
301.01 Maintenance	107
301.02 Fannie Mae's Rights	107
301.03 Eligible Depositories and Ratings	108
301.03 A Eligible Depository	108
301.03 B Verifying Depository Ratings	110
301.04 Investments and Interest	110
301.05 Clearing Accounts	111
301.06 Liability	111
301.06 A Losses	111
301.06 B Overdrafts	112
Section 302 Administration	112
302.01 Notifications	112
302.02 Titling	112
302.03 Deposits	113
Section 303 P&I Custodial Accounts	113
303.01 Accounts and Deposits	114
303.02 Withdrawals	114
Section 304 T&I Custodial Accounts	115
304.01 Deposits	115
304.02 T&I Impositions	116
304.03 Shortfalls	117
304.04 Prohibited Uses	117
304.05 No Financing for T&I Impositions	118
Section 305 Collateral Agreement Custodial Accounts	118
305.01 Deposits	118
305.02 Full Disbursement	119
Section 306 Clearing Accounts	119
Section 307 Drafting Accounts	120
307.01 Establishing Drafting Accounts	120
307.02 Consolidated Custodial Accounts	120
Section 308 Recordkeeping and Reconciliations	121
308.01 Account Analysis and Reconciliation	121



308.02 Records	122
308.03 For T&I Custodial Accounts	123
308.04 Borrower's T&I Impositions and Custodial Accounts	123
308.04 A Analysis Timing	123
308.04 B Insufficient Funds	123
308.04 C Surplus	124
308.05 Annual Statements	124
Part V Chapter 4 Asset Management: Loan Document Administration	126
Section 401 Servicing Requirements	126
401.01 General	126
401.02 Monitoring Compliance with Loan Documents	126
Section 402 Delegation of Decision-Making Authority; Retention of Outside Legal Counsel.....	127
402.01 Delegation of Decision-Making Authority	127
402.02 Retention of Outside Legal Counsel	128
Section 403 Execution of Documents by Servicer – Limited Power of Attorney	128
Section 404 Execution of Documents by Fannie Mae	129
404.01 Submission of Documents to Fannie Mae	129
404.02 Servicer Certification When Fannie Mae Approval Is Not Required	129
404.03 Servicer Certification When Fannie Mae Approval Is Required	130
Section 405 Fees Due to Fannie Mae	130
Section 406 Follow-Up Actions by the Servicer	131
Section 407 Subordinate Financing	132
407.01 Non-Fannie Mae Subordinate Financing	132
407.02 Prerequisite for Subordinate Financing	132
407.03 Fees for Subordinate Financing	133
407.04 Submitting the Request for Subordinate Financing	133
407.05 Fannie Mae Approval and Execution	134
407.06 Subsequent Servicer Actions	134
Section 408 Administration of Collateral Agreements	135
408.01 General Administrative Requirements	135
408.01 A Administration of Funds	135
408.01 B Funds to be Held in a Custodial Account	135
408.01 C Use of Funds	136
408.01 D Funds as Additional Security for Mortgage Loan	136
408.01 E Servicer's Fees and Costs	136
408.01 F Waiver or Modification of Terms of Collateral Agreement	136
408.02 Achievement Agreement or Other Agreement for Additional Collateral	137
408.02 A General	137
408.02 B Releases or Reductions in Collateral	137
408.02 C Draws on Letters of Credit or Application of Other Collateral	140
408.02 D Releasing Additional Escrows for Principal and Interest, Taxes and Insurance, and Replacement Reserves	141



408.03 Completion/Repairs	142
408.03 A General	142
408.03 B Extensions for Completion/Repairs	143
408.03 C Completion/Repair Loan Document Amendments	144
408.03 D Servicer’s Administrative Requirements	144
408.03 E Processing Borrower Requisitions	145
408.03 F Inspections	149
408.03 G Fees	150
408.03 H Completion/Repair Defaults	150
408.03 I Green Rewards Efficiency Measure Verification	151
408.04 Replacement Reserve	154
408.04 A General	154
408.04 B Replacement Reserve Loan Document Amendments	154
408.04 C Servicer’s Administrative Requirements	155
408.04 D Modifications to Replacement Reserve Deposits	156
408.04 E New Property Condition Assessments	156
408.04 F When Replacement Reserve Funding Was Partially or Fully Waived	158
408.04 G Interest on Replacement Reserve Funds	158
408.04 H Items Eligible for Funding from the Replacement Reserve	158
408.04 I Items Not Eligible for Funding from the Replacement Reserve	159
408.04 J Processing Borrower Requisitions	159
408.04 K Inspections	161
408.04 L Fees	161
408.04 M Replacement Reserve Defaults	162
408.04 N Return of Replacement Reserve Funds to Borrower	162
408.04 O Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans	162
Section 409 Interest Rate Hedge Requirements	163
409.01 General	163
409.02 Interest Rate Hedge Coverage	163
409.02 A Bond Credit Enhancement Transactions	164
409.02 B Structured Transactions	164
409.02 C All Hedges	164
409.03 Interest Rate Hedge Term	164
409.04 Lien Filings and Collateral	165
409.05 Borrower Payments	165
409.05 A Interest Rate Caps	165
409.05 B Interest Rate Swaps	166
409.06 Provider Ratings	166
409.07 Replacement Interest Rate Hedge and Notification	166
409.08 Replacement Interest Rate Hedge Documents and Follow Up	167
Section 410 Ground Leases	167
Section 411 Notice of Lien or Noncompliance with Applicable Laws, Ordinances and Regulations	168



Section 412 Property Forfeitures and Seizures	169
Section 413 Property and Liability Insurance	169
413.01 Property and Liability Insurance	169
413.02 No Financing for Property and Liability Insurance Premiums	170
413.03 Flood Map Changes; Obtaining Flood Insurance	170
413.04 Lender Placed Insurance	170
413.04 A Property and Liability Insurance	170
413.04 B Flood Insurance	170
413.04 C Servicer’s Administrative Costs and Expenses	171
Section 414 Casualty Losses – Performing Mortgage Loans	171
414.01 Notice	171
414.02 Filing Proof of Loss	171
414.03 Casualty Loss Assessment	171
414.04 Required Casualty Loss Property Inspection	172
414.05 Documentation for Required Casualty Loss Property Inspections	173
414.06 Endorsement of Insurance Loss Draft or Check When Payable to Fannie Mae	174
414.07 Endorsement of Insurance Loss Draft or Check When Not Payable to Fannie Mae	174
414.08 Insurance Loss Draft or Check Not Payable to Either Fannie Mae or Servicer.....	174
414.09 Application of Insurance Loss Proceeds	175
414.09 A Fannie Mae Determination Required	175
414.09 B Disposition of Insurance Loss Proceeds	176
414.10 Property Restoration Requirements	176
414.11 Commencement of Repair/Restoration Work	178
414.12 Disbursements	178
414.12 A Prerequisites for Disbursement of Funds	178
414.12 B Disbursing Funds	179
414.12 C Content of Disbursement Request	179
414.12 D Disbursement Amount	180
414.12 E Final Disbursement; Notice to Fannie Mae	181
414.12 F Documentation in Servicing File	181
414.13 Borrower’s Failure to Diligently Pursue Repair	182
414.14 Reimbursement of Administrative Costs	182
Section 415 Casualty Losses – Non-Performing Mortgage Loans	182
Section 416 Credit Facilities and Bulk Deliveries	182
416.01 General	183
416.02 Delegation of Decisions	183
416.02 A Decisions and Actions Not Delegated	183
416.02 B Decisions Delegated by the Delegated Transaction Form 4636 series	183
416.02 C Other Delegated Decisions	184
416.03 Approval Requests	184
416.04 Release and Substitution Requests	184



416.05 Borrow-Up (Future Advance) Requests	186
416.06 Facility Revaluations	187
416.07 Supplemental Mortgage Loans Not Permitted	187
416.08 Additional Information	187
Section 417 Seniors Housing Properties	187
417.01 General	187
417.02 Decisions and Actions Delegated and Not Delegated	188
417.03 Approval Requests	188
417.04 Seniors Housing Expansion/Conversion Requests	189
417.04 A Permitted Purpose	189
417.04 B Submission Requirements	189
417.04 C Requirements and Monitoring	190
417.04 D Construction Completion Requirements	191
417.04 E Request Changes in Unit Count/Mix in the MAMP	192
Section 418 Asset Management for Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties	192
418.01 Bond Transactions and Credit Enhancement Mortgage Loans	192
418.02 Compliance Issues Relative to Bond Credit Enhancement Transactions	192
418.03 Monitoring Compliance; Notification of Noncompliance	193
418.03 A Affordable Regulatory Agreement	193
418.03 B Default Notice for Failure to Comply with the Bond Documents	193
418.04 Multifamily Affordable Housing (MAH) Properties	193
418.05 Low-Income Housing Tax Credits	194
418.06 Enhanced Resident Services	195
418.07 HAP Contract Approval and Releasing Restabilization Reserve	195
Section 419 MH Communities with Tenant Site Lease Protections	196
Section 420 Single Asset Entity Conversion	197
Section 421 Loan Document Amendments	197
Section 422 Maturing Mortgage Loans	198
422.01 Written Policy	198
422.02 Refinance Eligibility	198
422.03 Borrower Communications	199
422.04 Fannie Mae Communications	200
Part V Chapter 7 Non-Performing Mortgage Loans	201
Section 701 Generally	201
Section 702 Secondary Risk Mortgage Loans and Primary Risk Mortgage Loans	202
702.01 Generally	202
702.02 Secondary Risk Mortgage Loans	202
702.02 A Definition	202
702.02 B Lender is Special Servicer	202
702.02 C Deemed Exhaustion of Recourse Obligation	203
702.03 Primary Risk Mortgage Loans Defined	203
702.03 A Definition	203



702.03 B Fannie Mae is Special Servicer	204
Section 703 Mortgage Loan Defaults	204
703.01 Anticipatory Defaults	204
703.02 Performance Defaults	204
703.02 A Failure of Borrower to Perform	204
703.02 B Service of Process	204
703.02 C Lender Tenders for Minor or Immaterial Defaults	205
703.03 Monetary or Payment Defaults	205
703.04 Date of Default	205
703.04 A Definition of Date of Default	205
703.04 B Definition of Non-Performing Mortgage Loan	206
703.04 C Partial Payments by Borrower Do Not Change Date of Default	206
703.05 Late Charges and Default Interest	206
703.05 A Timing for Imposition of Late Charges and Default Interest	206
703.05 B Late Charges and Default Interest	206
703.05 C No Deduction for Late Charges or Default Interest	207
703.05 D Enforceability of Late Charges and Default Interest	207
Section 704 Notice of Default; Reservation of Rights	207
704.01 Notice of Default	207
704.01 A Notice to Fannie Mae of Payment Default	207
704.01 B Notice to Fannie Mae of Performance Default	207
704.01 C Types of Performance Defaults	208
704.01 D Contact with Borrower	210
704.01 E Pre-Negotiation Letter	210
704.02 Partial Payments; Late Payments	211
704.02 A Partial Payments	211
704.02 B Late Partial Payment	211
704.02 C Full Payment After Expiration of Period Before Assessing Late Charges.....	211
704.02 D Application of Partial Payments	211
704.02 E Failure to Make Any Payment	212
704.02 F Copies of Letters Sent to Borrower; Correspondence with Borrower	212
Section 705 Capital Repairs and Protection of Property and Property Income	212
705.01 Funding Capital Repairs During Default Resolution	212
705.01 A Generally	212
705.01 B Health and Safety Repairs	213
705.02 Protection of Property Income	213
705.03 Property Management Changes	214
705.03 A Primary Risk Mortgage Loans	214
705.03 B Secondary Risk Mortgage Loans	214
705.03 C Approval Decision Criteria and Timing	214
705.03 D Documenting the Property Management Change	214
Section 706 Reinstatement; Calculation of Payoff Amount	215
706.01 Reinstatement	215



706.01 A Primary Risk Mortgage Loans	215
706.01 B Secondary Risk Mortgage Loans	215
706.02 Calculation of Payoff Amount	215
Section 707 Non-Performing Primary Risk Mortgage Loans – Transfers to Fannie Mae Special Asset Management	216
707.01 Transfer to Special Servicing	216
707.02 Asset Review	216
Section 708 Non-Performing Secondary Risk Mortgage Loans – Special Servicing	217
708.01 Servicer Performs Loss Mitigation Actions	217
708.02 Servicer Workout Action Template (“SWAT”)	217
708.02 A Delivery of SWAT	217
708.02 B Purpose of SWAT	218
708.02 C Contents of SWAT	218
708.02 D Fannie Mae Approves SWAT	219
708.02 E Fannie Mae does not Approve SWAT	219
708.02 F Updating SWAT	220
708.02 G Failure to Timely Deliver SWAT	220
708.02 H No Credit Against Recourse	221
Section 709 Special Servicing of Primary Risk Mortgage Loans	221
709.01 Fannie Mae Performs Loss Mitigation Actions	221
709.02 Servicing Transfer Memo	222
Section 710 Engagement of Legal Counsel	222
710.01 Fannie Mae Retains Legal Counsel	222
710.02 Primary Risk Mortgage Loans	222
710.03 Secondary Risk Mortgage Loans	223
710.04 Payment of Legal Counsel Fees	223
710.04 A Primary Risk Mortgage Loans	223
710.04 B Secondary Risk Mortgage Loans	223
Section 711 Courses of Action	224
711.01 Election and Implementation of a Course of Action	224
711.02 Course of Action – Lender Purchase of Mortgage Loan	225
711.02 A Primary Risk Mortgage Loans	225
711.02 B Secondary Risk Mortgage Loans	225
711.02 C Purchase Price for Mortgage Loans	226
711.02 D No Fannie Mae Approval Required	226
711.02 E Implementation of Course of Action	226
711.03 Course of Action – Lender Workout Election	227
711.03 A Lender Workout Defined	228
711.03 B Documentation and Terms of Lender Workout	228
711.03 C Lender Workout Has No Impact on Loss Sharing or Recourse Obligation.....	228
711.03 D No Fannie Mae Approval Required	229
711.03 E Servicer Makes Delinquency Advances But Fails to Report Mortgage Loan Delinquent	230
711.03 F Foreclosure Process Continues Unless Otherwise Agreed to by	



Fannie Mae	230
711.04 Course of Action – A Joint Workout	230
711.04 A Joint Workout Defined	231
711.04 B Delinquency Advances Must Be Made During Negotiation of Joint Workout	231
711.04 C Joint Workout Process	231
711.04 D Modification, Extension, and Forbearance Fees	232
711.04 E Triggering Modification Fees; Other Fees	233
711.04 F Foreclosure Process Continues Unless Otherwise Agreed to by Fannie Mae	233
711.05 Course of Action - Foreclosure	234
711.05 A Primary Risk Mortgage Loans	234
711.05 B Secondary Risk Mortgage Loans	234
711.05 C Deed-in-Lieu of Foreclosure	238
711.05 D Management of Property Post Title Vesting in Fannie Mae	238
711.05 E Deficiency Suits	239
711.06 Course of Action – Note Sale Election or Discounted Loan Payoff	241
711.06 A Note Sale and Discounted Loan Payoff Defined	241
711.06 B Lender Ability to Bid	241
711.06 C Any Note Sale or Discounted Payoff Gives Rise to Loss Sharing Event	242
711.06 D Note Sale – Secondary Risk Mortgage Loans	242
711.06 E Discounted Loan Payoff - Secondary Risk Mortgage Loans	244
Section 712 Dual Track Approach	245
712.01 Dual Track Approach Generally	245
712.02 Waiver of Dual Track Approach	246
712.03 Track One: Dialogue with the Borrower	246
712.03 A Purpose of Track One	246
712.03 B First 30 Calendar Days after a Default	246
712.03 C Calendar Days 31 through 60 after a Payment Default or Performance Default	247
712.03 D Cessation of Dialogue with the Borrower	247
712.04 Track Two: Foreclosure Process	248
712.04 A The Foreclosure Process	248
712.04 B REO Management	250
712.05 Description of Contractual Relationships	252
712.05 A Two Contractual Relationships	252
712.05 B No Disclosure of Lender’s Contract Terms to Borrower; Borrower Not a Third-Party Beneficiary of Lender Contract	252
712.05 C Primary Risk Mortgage Loans	252
712.05 D Secondary Risk Mortgage Loans	253
712.06 Asset Audits for Secondary Risk Mortgage Loans	253
712.06 A Purpose of Asset Audits	253
712.06 B Personnel Performing Asset Audits	253
712.06 C Timing of Asset Audits	254



712.06 D Content of Asset Audits	254
712.06 E Pre-Negotiation Letter	255
712.06 F Special Requirements for the Environmental Assessment	256
712.07 Dual Track Timeline	257
Section 713 Loss Sharing and the Appraisal Process in connection with a Foreclosure Event	262
713.01 General	263
713.01 A Appraisal Required; Defined Terms	263
713.01 B Compliance with Loss Sharing Addendum	263
713.01 C Approved Appraisers	263
713.01 D Appraisal Requirements	263
713.01 E Appraisal Notice and Election of Appraisal Methodology	265
713.02 Single Appraisal Approach	266
713.02 A Single Appraisal Approach Timeline	266
713.02 B Draft Appraisal Review	266
713.02 C Acceptable Draft Appraisal	267
713.02 D Non-Acceptable Draft Approach	267
713.03 Dual Appraisal Approach	268
713.03 A Dual Appraisal Approach Timeline	268
713.03 B Average of Appraised Values	269
713.03 C Third Appraisal	269
GLOSSARY	271



Summary of Changes

HIGHLIGHTS
<p>Effective February 22, 2022, Fannie Mae continues the CLASS initiative by publishing the rewritten Part V, Chapter 3: Custodial Accounts.</p>

Primary Changes

In 2019 and 2020 the rewritten Parts I – IV of the Guide became effective in DUS Navigate™, and recently 3 rewritten Part V chapters were published. With your support and partnership, we continue the CLASS initiative and are now publishing

- the rewritten Part V, Chapter 3: Custodial Accounts, and
- associated Letter of Authorization forms (Form 2050, Form 2051, and Form 2052).

Questions

Please email multifamily_lender_oversight_grp@fanniemae.com with any questions.



Chapter 2 Reporting and Remitting

Section 201 Generally

This Chapter:

- outlines the accounting policies and procedures that apply to [Mortgage Loans](#);
- applies to both [Cash Mortgage Loans](#) and [Securitized Mortgage Loans](#), except where noted that a particular procedure is applicable only to one or the other execution;
- describes the methods for accounting for scheduled monthly payments, payment shortages, additional principal payments, repayments of advances, and payments in full; and
- describes Fannie Mae's remittance requirements, the method for remitting, and the format for reporting [Mortgage Loan](#) information on all transactions.

Fannie Mae purchases [Mortgage Loans](#) for cash or in exchange for the issuance of a [Security](#). Fannie Mae reserves the right to later place any of the [Mortgage Loans](#) purchased for cash into a [Security](#) (e.g., [PFP MBS](#)). If Fannie Mae securitizes a [Mortgage Loan](#), the [Servicer](#) may be required to make certain changes to its reporting and remitting procedures. If such an event occurs and changes to a [Servicer's](#) reporting and remitting procedures will be required, Fannie Mae will notify the [Servicer](#) in writing.

Fannie Mae reserves the right to modify its Remittance Accounting system and forms to accommodate future changes to its overall systems applicable to [Mortgage Loans](#).

Section 202 Collection, Tracking and Reporting of Monthly P&I Payments and T&I Amounts

The [Servicer](#) is responsible for collecting monthly [P&I](#) payments from the [Borrower](#) in accordance with the terms of the [Note](#) executed by the [Borrower](#). All [P&I](#) payments and [T&I](#) amounts collected by the [Servicer](#) in connection with [Mortgage Loans](#) must be deposited in the applicable [P&I](#) and [T&I Custodial Accounts](#) maintained in accordance with the requirements of [Part V, Chapter 3: Custodial Account Requirements](#) [Custodial Accounts \(16641\)](#).



The **Servicer** must track and account separately for all P&I payment activity relating to each **Mortgage Loan**. The **Servicer** must report to Fannie Mae on the P&I payment activity relating to each **Mortgage Loan** as provided in this Chapter.

Section 203 Reporting Loan Activity and Security Balance

203.01 Use of Fannie Mae eServicing System

The **Servicer** must use Fannie Mae's eServicing System to report **Mortgage Loan** level information on all **Cash Mortgage Loans** and **Securitized Mortgage Loans**. The **Servicer** must register to use the eServicing System prior to use. Information regarding registering for the eServicing System can be found on <https://multifamily.fanniemae.com/applications-technology/eservicing>. The **Servicer** must segregate its **Cash Mortgage Loan** servicing portfolio from its **Securitized Mortgage Loan** servicing portfolio for reporting purposes.

203.02 Reporting Specific Transactions

All reportable transactions will fall into one or more categories. Some transactions update the status of a **Mortgage Loan** or summarize collection activity, while others update the information in Fannie Mae's records (e.g., **Property** addresses, **Servicer Mortgage Loan** identification numbers, **Mortgage Loan** terms, subservicing status, etc.).

203.03 Monthly Activity Reporting

203.03A When to Begin Reporting

The **Servicer** must use the eServicing System to report its monthly **Mortgage Loan** activity to Fannie Mae following the end of each Reporting Period, commencing with the month following the:

- date Fannie Mae acquired the **Cash Mortgage Loan** or **PFP Mortgage Loan**; or
- **Issue Date** for **Securitized Mortgage Loans** (other than **PFP MBS**).

203.03B Cutoff Dates for Loan Activity Reporting



The following are the cutoff dates for activity reporting on Mortgage Loans:

Monthly Activity Cutoff Date	Monthly Activity Report Due Date
Servicer may establish as its cutoff date any day from the 25th of the month to the last day of the month.	Not later than the second Business Day of the month following the cutoff date for the Reporting Period.

203.03C Cash Mortgage Loan – Reporting Remittance Amount

On the last Business Day before the designated Remittance Date, the Servicer must electronically report the remittance amount using the Cash Remittance System that is to be drafted by Fannie Mae on the Remittance Date. The Servicer may enter drafting information into the Cash Remittance System at any time until 4:00 p.m. Eastern Time, which is the designated cutoff time to enable Fannie Mae to draft the remittances on the next Business Day.

The Servicer may change the information for individual drafts at any time prior to the 4:00 p.m. Eastern Time cutoff time (and the Servicer's transmission of the information to Fannie Mae). After the remittance information is electronically transmitted to Fannie Mae, the Cash Remittance System will generate a report for the Servicer to confirm Fannie Mae's receipt of its drafting instructions. Fannie Mae will then draft the related funds on the following Business Day using an automated clearing house. The Servicer will be able to print reports of its drafting activity to facilitate recordkeeping and reconciliation of account information.

203.04 Monthly Securitized Mortgage Loan Security Balance Reporting

203.04A Reporting Security Balances

For each Security Pool serviced by the Servicer, the Servicer must submit a monthly Security Balance report that references:

- the Security Balance; and
- the Security Pool number.

203.04B Same Month Pooling – Security Balance for First Reporting Cycle



For Same Month Pooling Mortgage Loans, the Borrower will have made no payment as the monthly debt service payment will not yet have come due. Because the Servicer's Security Balance report for the month following the Issue Date of the Security Pool under the Same Month Pooling Delivery option will not include an amount for principal curtailment for amortizing Mortgage Loans, the Servicer must report the Issue Date Principal Balance of the Mortgage Loan as the first reporting cycle Security Balance. As long as the Servicer reports the Issue Date Principal Balance of the Securitized Mortgage Loan in its first Security Balance report, there will be no impact on the Pool-to-Security balance reconciliation for that month.

203.04C Security Balances Due by Second Business Day

The Servicer must have transmitted all of its Security Balances (or corrections to balances reported in error) to Fannie Mae by 5:00 p.m. Eastern Time on the second Business Day of each month following the Reporting Period. If the Servicer anticipates a problem in meeting this reporting deadline or has a transmission problem that will result in late reporting, the Servicer must contact its Fannie Mae Representative.

203.04D Failure to Meet Reporting Deadline

If the Servicer fails to meet Fannie Mae's reporting deadline, Fannie Mae may estimate the Servicer's Security Balances so Fannie Mae can pass-through payments to Investors and publish Security Balances in a timely manner. When Fannie Mae does this, Fannie Mae's estimate will be both the published Security Balance, and the beginning Security Balance used for the next month's Security Balance report. Fannie Mae will send the Servicer written notification of any published estimated Security Balance within 10 days after publication by Fannie Mae.

203.05 Due Dates for Reports

The exact due date of the Servicer's submission of its reports depends on the type of transaction being reported.

203.05A Removal Transactions

The Servicer must report removal activity (e.g., payoff, repurchase, liquidated-held for sale, and liquidated third-party sale/condemnation) by the second Business Day of the month following



the cutoff date for the Reporting Period in which the activity occurred. The **Servicer** may correct any removal activity reporting error by resubmitting the corrected information in time to reach Fannie Mae by the second **Business Day** of the month following the Reporting Period. If the **Servicer** is unable to correct the error, the **Servicer** must notify its **Fannie Mae Representative** about the error.

203.05B All Other Transactions

The **Servicer** must make sure that all other transactions (which are the transactions that comprise the bulk of its reports) are transmitted in sufficient time for receipt by Fannie Mae by the second **Business Day** of the month following the cutoff date for the Reporting Period.

203.06 Mortgage Loan Activity Record

The Loan Activity Record is used to provide **Mortgage Loan**-level detail of amounts due to Fannie Mae or the **Investor** for each **Mortgage Loan** on the **Servicer's** trial balance.

203.06A Payment Collection

Payment collection relates to the receipt and application of the monthly payment. The information that must be reported includes:

- actual last paid installment ("LPI") date;
- actual **UPB**; and
- remittance amount (distributed between **P&I**).

Under the **Same Month Pooling** option, the **Servicer** must not report a principal distribution amount for the first reporting cycle following the **Issue Date** of the Security Pool because no payment will have come due from the **Borrower**. For the first reporting cycle, the actual **UPB** of the **Mortgage Loan** will equal the **Issue Date** principal balance, as no principal payment will be subtracted from the **Security Balance** or passed through to the **Investor**.

203.06B Fee Collection

Fee collection relates to any special fees that were collected from the **Borrower** during the Reporting Period.

203.06C Mortgage Loan Status



Mortgage Loan status relates to special actions that have occurred (e.g., a payoff or a repurchase). An action code and an action date (specifying when the reported action occurred or will occur) must be reported. The User Manual for the eServicing System provides detailed information regarding action codes and action dates.

203.07 Reports Generated by Fannie Mae

203.07A MBS Mortgage Loan Reports

On approximately the 10th of the month, the eServicing System provides P&I Draft Amount reports that the **Servicer** may download or view to verify the amount that will be drafted on the 18th of the month. The reports also include, if applicable, **Prepayment Premium** amounts that must be passed through to Fannie Mae (which include portions due to Fannie Mae and to the investor).

203.07B Cash Mortgage Loan and MBS Mortgage Loan Reports

After Fannie Mae processes the **Servicer's** information in the eServicing System, reports are produced to highlight the reported activity. These reports are designed to assist the **Servicer** in reconciling the monthly information generated from the eServicing System with its internal records. These reports are available to the **Servicer** after the 22nd day of each month.

203.08 Monthly MBS Mortgage Loan Reconciliations - Pool-to-Security Balance Reconciliations (Not Applicable to PFP MBS)

203.08A Reconciliation Required

At the end of each Reporting Period, the **Servicer** must reconcile the actual ending **Mortgage Loan** balance for the **Mortgage Loan** in any given Security Pool to the ending **Security Balance** for that Security Pool. To perform this reconciliation, the **Lender** must use the following calculation:

Function	Ending Principal Balance for the Mortgage Loan in Security Pool (from current month)
PLUS	Prepaid Principal (as of current month)
MINUS	Delinquent Principal (as of current month)
MINUS	Scheduled Principal (as of current month)



PLUS	Principal Portion of Last Installment for Liquidated Mortgage Loan (as of current month)
	Adjusted Principal Balance for Security Pool
MINUS	Ending Security Balance for Reporting Period
EQUALS	Difference

203.08B Rounding Adjustment

Because the total amount of the [Mortgage Loan](#) that is issued for a Security Pool is rounded down to the next lowest whole dollar amount of the actual “[Issue Date Principal Balance of the Mortgage Loan](#)”, the [Security Balance](#) will be smaller than the actual UPB of the [Mortgage Loan](#). The difference will never be greater than \$0.99 for a single Security Pool. The [Servicer](#) must adjust for this difference in the first monthly accounting report it submits after the [Issue Date](#) of the [Security](#), classifying it as an “unscheduled” principal adjustment.

203.08C Required Annual Adjustment to Correct Principal Balance vs. Security Balance Difference

Other differences may arise in the reconciliation between the UPB of the [Mortgage Loan](#) in a Security Pool and the outstanding [Security Balance](#). These differences cannot exceed more than \$0.25 for any [Mortgage Loan](#) in the Security Pool. At least once a year, the [Servicer](#) must make an adjustment to correct any differences.

1. If Security Balance is Greater than UPB

If the [Security Balance](#) is higher than the UPB of the [Mortgage Loan](#), the [Servicer](#) must immediately deposit the funds in the “scheduled/scheduled” [P&I Custodial Account](#) for Security Pools so that the funds can be passed through to Fannie Mae (as an “unscheduled” principal collection) with the [Servicer’s](#) next monthly remittance.

2. If Security Balance is Lower than UPB

If the [Security Balance](#) is lower than the UPB of the [Mortgage Loan](#), the [Servicer](#) may adjust a subsequent pass-through amount that includes an “unscheduled” principal collection to correct for this difference.

203.08D Pool-to-Security Reconciliation Certification



The eServicing System produces a Pool-to-Security Reconciliation on a monthly basis to assist **Servicers** with review. **Servicers** are required to review and certify any pool-to-security difference each month by month end. Differences occur when the **MBS** pool security balance does not match the sum of the scheduled **UPB** of the **Mortgage Loan**. Fannie Mae calculates pool-to-security differences after monthly **Mortgage Loan** and **Security** reporting is complete. For each pool with a difference, the **Servicer** must review the deficiency, research the difference, and determine the appropriate remedy. The **Servicer's** certification includes the identification and selection of a deficiency reason, and a statement of how it should be resolved.

Section 204 Calculation of Interest Due

204.01 Generally

Generally the **Borrower's** monthly payment consists of **P&I** and deposits for insurance, taxes, replacement reserves and replacement hedges or some combination of such items. In some instances, the payment may include additional funds to be applied toward the **UPB** or to repay funds advanced by the **Servicer**. The **Servicer** must account for each portion of the **Borrower's** monthly payment in the **Servicer's** records. The **Servicer** must track both actual and scheduled **Mortgage Loan** balances (a.k.a., **Security Pool** and **Security** balances) and reconcile any outstanding difference (e.g., the **Servicer** advances for insufficient **Borrower** payments).

204.02 Calculating Interest Due

The interest calculation method is generally specified in the **Loan Documents**. **Servicers** are required to calculate interest due for each **Mortgage Loan** as required by the **Loan Documents**. If the **Loan Documents** do not contain any information regarding the interest calculation method, then **Servicers** should assume a 30/360 accrual method.

204.02A Actual/360 Interest Calculation Method

Interest will accrue based upon the actual number of days in a calendar month and a 360-day year.

204.02B 30/360 Interest Calculation Method



Interest will accrue based upon a 30-day month and a 360-day year.

Section 205 ARM Mortgage Loan Interest Rate and Monthly Payment Changes

205.01 Adjustable Rate Mortgage Loan Interest Rate Changes and Required Monthly Payments

The **Servicer** must enforce each **Mortgage Loan** in accordance with the terms of the executed **Loan Documents**. This includes making periodic interest rate and payment adjustments in connection with any type of **Adjustable Rate Mortgage Loans**. The **Servicer** must change the **Mortgage Loan** interest rate and monthly payments to the fullest extent permitted or required, maintaining at all times the **Mortgage Loan** margin specified in the executed ARM Note. Factors used to determine the new interest rate for ARM Mortgage Loans include:

- the **Index** on which the rate is to be based;
- the “look back” period;
- any applicable interest rate change limitations; and
- the **Mortgage Loan** margin.

If the **Servicer** fails to make a timely interest rate or payment adjustment, the **Servicer** must use its own funds to satisfy any shortage.

205.01A The Adjustable Rate Mortgage Loan Index

The **Servicer** must determine the **Index** on which the rate is to be based as specified in the **Loan Documents**. To assist the **Servicer** in monitoring indexes, Fannie Mae offers an ARM Index service through its website on <https://multifamily.fanniemae.com>. The **Servicer** must establish procedures to monitor the **Index** to assure that the **Servicer** uses the latest available **Index** to determine an interest rate change.

205.01B Determining the New Monthly Payment

Except for Fannie Mae Structured ARM Loans, a Required Monthly Payment change occurs at established intervals and corresponds to any change in the interest rate. The new monthly payment is calculated by determining the amount required to repay the **UPB** of the **Mortgage Loan** in substantially equal payments over the



remaining amortization period of the [Mortgage Loan](#) at the interest rate in effect following the latest interest rate change utilizing the applicable Interest Calculation Method. If the [Mortgage Loan](#) is an interest-only [Mortgage Loan](#), the new monthly payment is the monthly interest payment at the interest rate in effect following the latest interest rate change utilizing the applicable Interest Calculation Method. The new Required Monthly Payment becomes effective on the first day of the month following the month in which the interest Rate Change Date occurs.

205.02 Monthly Reporting for ARM Payment/Rate Changes

Prior to the effective date of the Monthly Payment/Rate Change the [Servicer](#) must submit a Monthly Payment/Rate Change via the eServicing System. For assistance with rate and/or payment changes, the [Servicer](#) must contact its [Fannie Mae Representative](#).

In order for Fannie Mae to account for ARM Mortgage Loans on its books, Fannie Mae must receive the Monthly Payment/Rate Change on a timely basis.

205.03 Structured ARM Loans

Structured ARM Mortgage Loans using ARM Plan Numbers 03487 and 03488 are subject to the same reporting and remittance requirements as other ARM Mortgage Loans except for the differences described in this section.

The interest rate for Structured ARM Loans will be determined based on either the 1-month or 3-month [LIBOR Index](#) using a 1-[Business Day](#) look-back period in accordance with the requirements of the applicable Structured ARM Plan Number. The applicable interest rate will be determined by adding the [Mortgage Loan](#) margin specified in the [Note](#) to the applicable [Index](#) value. No periodic or lifetime interest rate limitations apply to this computation.

Rate Changes for 1-month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03488) will occur on the First Payment Date and the first day of each month thereafter until maturity as specified in the [Note](#). Rate Changes for 3-month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03487) will occur on the first day of the month which is the second month following the First Payment Date and the first day of every third month thereafter until maturity as specified in the [Note](#).



The First Payment Date will be the first day of the second full calendar month following the [Mortgage Loan](#) closing date as specified in the [Note](#) or, if the closing date is the first day of the month, the First Payment Date will be the first day of the month following the closing date. For example, if the [Mortgage Loan](#) closes on June 15th, the First Payment Date is on August 1st and if the [Mortgage Loan](#) closes on June 1st, the First Payment Date is on July 1st.

A Required Monthly Payment change occurs at established intervals and corresponds to any change in the interest rate, the number of days in an accrual period, or the [UPB](#) of the [Mortgage Loan](#).

If the [Mortgage Loan](#) amortizes, the Required Monthly Payment is the sum of the monthly interest installment and the monthly principal installment. The monthly interest installment is calculated by multiplying the [UPB](#) of the [Mortgage Loan](#) by the interest rate in effect following the latest interest rate change utilizing an Actual/360 interest accrual method. Equal monthly principal installments will be made over the term of the [Mortgage Loan](#) in the amount set forth in the Structured ARM Note.

If the Structured ARM Loan is an interest-only [Mortgage Loan](#), the Required Monthly Payment is the monthly interest payment which is calculated by multiplying the [UPB](#) of the [Mortgage Loan](#) by the interest rate in effect following the latest interest rate change utilizing an Actual/360 interest accrual method as set forth in the Structured ARM Note.

For 1-month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03488), the new Required Monthly Payment becomes effective on the first day of the month following the month in which the Rate Change Date occurs.

For 3-month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03487), a new Required Monthly Payment becomes effective on the first day of each month following any change in the interest rate or if the number of days in an accrual period is different from the prior month, as set forth in the Structured ARM Note.

Section 206

Application of Monthly Payments

206.01 Fannie Mae Form Loan Documents

For [Mortgage Loans](#) originated using Fannie Mae published [Note](#) forms, the [Servicer](#) must apply monthly payments received from the [Borrower](#) as follows:



Loan Document Version	Application of Payments
<p>Pre-1988 Form Loan Documents using Rider to Multifamily Instrument (Form 4059, 4/88)</p>	<p>Servicer must apply monthly payments received from the Borrower in the following order:</p> <ul style="list-style-type: none">• first, to impositions due under Uniform Covenant 2 of the Security Agreement, including deposits for T&I, and deposits due under a Collateral Agreement (e.g., Replacement Reserve);• then, to interest at the Gross Note Rate;• then, to principal;• then, to interest on any Servicing and Delinquency Advances made by the Servicer;• then, to principal on any Servicing and Delinquency Advances made by the Servicer;• then, to late charges and other funds due the Servicer; and• finally, to interest at the default interest rate. <p>The interest portion of the fixed installment must be determined by computing 30 days interest on the outstanding principal balance as of the last paid installment date. For this calculation, always use the Gross Note Rate for the Mortgage Loan or the default interest rate, as applicable.</p>



<p>Post-1988 and Pre-1998 Loan Documents using Rider to Multifamily Instrument (Form 4058, 6/93 or Form 4059, 5/93) (the "New Document Loans")</p> <p>and</p> <p>Post-1998 Loan Documents, unless otherwise instructed by Fannie Mae</p>	<p>Servicer must apply monthly payments received from the Borrower in the following order:</p> <ul style="list-style-type: none">• first, to any delinquent interest (other than interest attributable to the default interest rate);• then, to any delinquent principal;• then, to interest for the current month at the Gross Note Rate;• then, to principal for the current month;• then, to reimburse the Servicer or Fannie Mae for any T&I payments;• then, to reimburse the Servicer or Fannie Mae for any delinquency resolution costs, attorney fees, Appraisal fees, environmental assessment costs, or PCA costs;• then, to reimburse the Servicer or Fannie Mae for any payments to protect the Property;• then, to late charges;• then, to default interest;• then, to T&I Custodial Account deposits; and• finally, to Collateral Agreement Custodial Account deposits.
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206.02 Non-Fannie Mae Form Loan Documents

For **Mortgage Loans** not originated using Fannie Mae published **Note** forms, the **Servicer** must apply monthly payments received from the **Borrower** as required by the relevant **Loan Documents**. If the **Loans Documents** do not provide for the order of application of monthly payments, then the **Servicer** must follow the requirements for the Fannie Mae Post-1998 **Loan Documents** as provided in **Part V, Chapter 2: Reporting and Remitting, Section 206.01: Fannie Mae Form Loan Documents**.

Section 207 Payment Shortages



When payments received from the **Borrower** are less than the total amount then due under the **Mortgage Loan** (including P&I and T&I, but may also include required deposits to the **Replacement Reserve** or other monies due as required in the **Loan Documents**), the **Mortgage Loan** is in default and the **Servicer** must follow the default procedures specified in **Part V, Chapter 7: Non-Performing Mortgage Loans**.

The **Servicer** may not supplement partial payments received from the **Borrower** with funds from any **Collateral Agreement Custodial Account** without Fannie Mae's prior written consent.

Section 208 Delinquency and Servicing Advances

208.01 Generally

208.01A Applicability

This Section 208 shall apply to all loans purchased by Fannie Mae (i) under the **DUS** product line and (ii) under any contracts entered into after June 1, 2012, unless any such contract provides that this Section 208 shall not apply to such contract.

208.01B Delinquency Advances on a Mortgage Loan other than a Credit Enhancement Mortgage Loan

Whether or not the **Borrower** pays to the **Lender** the full amount due under a **Mortgage Loan** (other than a **Credit Enhancement Mortgage Loan**), the **Lender** will remit to Fannie Mae **Delinquency Advances** in an amount equal to all monthly **P&I** installments then owed under each **Mortgage Loan**, net of **Servicing Fees**, in the manner and at the time the **Lender** is required to make remittances under the **Guide** or the **Lender's Contract**. The **Lender's** agreement to make **Delinquency Advances** in respect of a **Mortgage Loan** constitutes a separate contractual obligation of the **Lender** to Fannie Mae and is not a guaranty or surety of any obligation of the related **Borrower**. The **Lender's** obligation to fund **Delinquency Advances**, except in the case of **Secondary Risk Mortgage Loans**, is not intended to require advances of the principal balance due on the scheduled or accelerated maturity date for payment in full of a **Mortgage Loan**. The **Lender's** obligation to fund **Delinquency Advances** with respect to **Secondary Risk Mortgage Loans** shall include the obligation to fund the principal balance due on the scheduled or accelerated maturity date for payment in full of a **Mortgage Loan**.

208.01C Delinquency Advances on a Credit Enhancement Mortgage Loan



Whether or not the Borrower pays to the Lender the full amount due on a Credit Enhancement Mortgage Loan, and whether such amounts are payable under the Financing Agreement, the Note, the Reimbursement Agreement or other transaction documents, the Lender shall make Delinquency Advances in amounts as follows, each in the amount as required to be made under the Financing Agreement, the Note, the Reimbursement Agreement or other applicable transaction document, net of any Servicing Fee otherwise payable to the Lender:

- interest payments as required by the definition of Delinquency Advances, net of Servicing Fees;
- monthly installments of principal owed on the Credit Enhancement Mortgage Loan, or, if the transaction documents of the Credit Enhancement Mortgage Loan require the Borrower to make deposits to a PRF in lieu of amortizing the principal of the Credit Enhancement Mortgage Loan in whole or in part, deposit in a special custodial account meeting the requirements of the Guide (“Special Custodial Account”) any amounts that the Borrower was obligated under the Note, the Reimbursement Agreement or other applicable transaction document to pay as deposits to the PRF and transfer such funds in the Special Custodial Account to the applicable Bond Trustee at such time as the funds are required for a mandatory payment of P&I under the Bonds;
- the annual or other periodic fee of the Issuer as a continuing fee for the issuance of the Bonds and the provision of the financing for the Property;
- the annual or other periodic continuing trust administration fee of the Bond Trustee;
- the annual or other periodic continuing fee of the rebate analyst, if any, for its rebate calculation services;
- the annual or other periodic continuing fee of the remarketing agent, if any, for its remarketing services;
- the Credit Enhancement Fee;
- if the transaction documents of the Credit Enhancement Mortgage Loan require the Borrower to make deposits to a PRF in lieu of amortizing the principal of the Credit Enhancement Mortgage Loan in whole or in part, the PRF



Fee; and

- if the [Credit Enhancement Instrument](#) contains a liquidity facility for the [Bonds](#), the [Liquidity Fee](#).

The [Lender](#) shall make such advances to the party, in the manner and at the time the [Lender](#) is required to make such remittances under the [Guide](#). The [Lender's](#) agreement to make [Delinquency Advances](#) in respect of a [Credit Enhancement Mortgage Loan](#) constitutes a separate contractual obligation of the [Lender](#) to Fannie Mae and is not a guaranty or surety of any obligation of the related [Borrower](#).

208.01D Servicing Advances on a Mortgage Loan other than a Credit Enhancement Mortgage Loan

Whether or not [Borrower](#) makes payments to the [Lender](#), the [Lender](#) shall make [Servicing Advances](#) as and when such amounts constituting [Servicing Advances](#) are required to be paid.

208.01E Servicing Advances on a Credit Enhancement Mortgage Loan

Whether or not the [Borrower](#) makes payments to the [Lender](#), the [Lender](#) shall make [Servicing Advances](#) on a [Credit Enhancement Mortgage Loan](#) as and when such amounts constituting [Servicing Advances](#) are required to be paid. For each [Credit Enhancement Mortgage Loan](#), [Servicing Advances](#) shall include, in addition to those items set out in the definition of [Servicing Advances](#), all fees, costs and expenses, whether recurring or non-periodic, not covered by a [Delinquency Advance](#) but necessary, as determined by Fannie Mae, to preserve or protect the [Bonds](#) or to exercise any legal or equitable remedies under the [Bond Indenture](#), the [Bonds](#) or any of the other transaction documents (other than the [Loan Documents](#)).

208.02 Duration of Payment of Delinquency Advances or Servicing Advances

208.02A Obligation to Make Delinquency Advances

Unless the [Lender's Contract](#) expressly provides otherwise, the [Lender](#) must make [Delinquency Advances](#) until the earliest of:

- the [Lender's](#) purchase of the [Mortgage Loan](#) from Fannie Mae;
- the date on which [Borrower](#) cures the [Mortgage Loan](#)



default;

- the date on which the Lender makes the fourth of four continuous months of Delinquency Advances;
- the Asset Valuation Date established in accordance with Section 6.02 of the Loss Sharing Addendum; or
- the date on which the Borrower pays off the Mortgage Loan.

Notwithstanding the foregoing, (i) for Securitized Mortgage Loans, the Lender must make Delinquency Advances to Fannie Mae as long as the Mortgage Loan is held by the trust established in connection with such securitization, and (ii) for Credit Enhancement Mortgage Loans, the Lender must make Delinquency Advances to Fannie Mae as long as the Bonds are outstanding. However, in either case, Lender will receive reimbursement for such Delinquency Advances upon request as required by Part V, Chapter 2: Reporting and Remitting, Section 208.02C: Reimbursement for Delinquency and Servicing Advances following the date on which Lender makes the fourth of four consecutive months of Delinquency Advances or, if earlier, immediately following the Maturity Date of the Mortgage Loan and, thereafter, the Lender will receive reimbursement for each Delinquency Advance upon request. If the Lender believes that Delinquency Advances with respect to a Mortgage Loan are no longer required to be made pursuant to this Section 208.02, the Lender shall notify Fannie Mae, in writing, and upon written confirmation by Fannie Mae that it concurs that no further Delinquency Advances are required, the Lender shall cease making Delinquency Advances with respect to such Mortgage Loan.

208.02B Obligation to Make Servicing Advances

Unless the Lender's Contract expressly provides otherwise, the Lender must make Servicing Advances until the earliest of:

- the Lender's purchase of the Mortgage Loan from Fannie Mae;
- the date on which the Borrower cures the Mortgage Loan default;
- the Asset Valuation Date related to a Foreclosure Event, a sale of the Property directed by a court of competent jurisdiction, a Discounted Loan Payoff, or Note Sale; or
- the date on which the Borrower pays off the Mortgage



Loan.

The Lender shall not be required to make Servicing Advances to fund escrows or custodial accounts for taxes, assessments, and insurance premiums or to make payments to the accounts established for the Mortgage Loan; provided, however, that the Lender must apply any partial payments (including any Net Cash Flow from the Property that, under applicable state law, is then available for use by Fannie Mae) in the manner specified in the Loan Documents and the Guide.

208.02C Reimbursement for Delinquency and Servicing Advances

Upon the expiration of the Lender's obligation to make Delinquency Advances as provided above or, with respect to any Securitized Mortgage Loan, following the date on which the Lender makes the fourth of four consecutive months of Delinquency Advances, the Lender may, by written notice to Fannie Mae submitted on Fannie Mae Form 4828, together with any supporting documentation required by Fannie Mae, request reimbursement for any and all Delinquency Advances made by the Lender with respect to the Mortgage Loan.

Upon making a Servicing Advance with respect to a Mortgage Loan, Lender may, by written notice to Fannie Mae submitted on Fannie Mae Form 4829, together with any supporting documentation required by Fannie Mae, request reimbursement for such Servicing Advance.

Fannie Mae shall reimburse the Lender for such Delinquency Advances and Servicing Advances within 60 days following Fannie Mae's receipt and approval of the Lender's written request.

This Section 208.02.C shall not apply to Delinquency Advances or Servicing Advances made by the Lender with respect to any Non-Performing Mortgage Loan with a Last Paid Installment prior to March 1, 2012.

208.03 Repayment of Servicing Advances from Borrower

Unless otherwise directed in writing by Fannie Mae, the Lender must seek restitution of any Servicing Advances from the Borrower. For this repayment, the Lender may require the Borrower to make full restitution on the next occurring Mortgage Loan payment due date or may permit the Borrower to make restitution payments over several months. Amounts due from the Borrower for which a Servicing Advance was made may include default interest on the Servicing Advances as permitted in the Loan Documents. Interest must be



calculated from and including the date the [Servicing Advance](#) is made to but excluding the date the repayment is received. If the [Lender](#) permits restitution over several months, such restitution payments will not be included in any required calculation of [DSCR](#).

If the [Lender](#) has been reimbursed by Fannie Mae for any [Servicing Advances](#) and receives restitution of such [Servicing Advances](#) from the [Borrower](#), the [Lender](#) shall promptly remit such amounts to Fannie Mae.

208.04 No Capitalization of Servicing Advances for Securitized Mortgage Loans

For the purpose of calculating monthly distributions to the [Security](#) certificate holders or other investors, [Servicing Advances](#) will not be added to the scheduled principal balance of the related [Mortgage Loan](#), even though the terms of the [Mortgage Loan](#) may permit increases to the outstanding principal balance of the [Mortgage Loan](#) for such advances and may permit Fannie Mae or the [Lender](#), as applicable, to pursue recovery of those advances from the [Borrower](#). [Servicing Advances](#) do not reduce or modify the [Borrower's](#) obligation under the [Loan Documents](#).

208.05 Entitlement to Default Interest

Between Fannie Mae and the [Lender](#), unless the [Lender's](#) [Contract](#) expressly provides otherwise, so long as the [Lender](#) is obligated to make or has made [Delinquency Advances](#) as provided in [Part V, Chapter 2: Reporting and Remitting, Section 208.02A: Obligation to Make Delinquency Advances](#), the [Lender](#) is entitled to retain 50 percent of the default interest collected from or on behalf of the [Borrower](#). The other 50 percent of such default interest, to the extent collected from or on behalf of the [Borrower](#), is remitted to and retained by Fannie Mae. Notwithstanding anything in this [Section 208.05](#) to the contrary, with respect to any [Non-Performing Mortgage Loan](#) with a [Last Paid Installment](#) prior to March 1, 2012, if the [Lender](#) is obligated to make [Delinquency Advances](#) then the [Lender](#) is entitled to all default interest collected from or on behalf of the [Borrower](#) with respect to such [Mortgage Loan](#). If the [Lender](#) is not obligated to make any [Delinquency Advances](#) on a [Non-Performing Mortgage Loan](#), all default interest shall be remitted to and retained by Fannie Mae. Without regard to whether the [Lender](#) is making [Delinquency Advances](#), Fannie Mae is always entitled to the interest that accrues at the stated interest rate on the [Mortgage Loan](#) net of the [Lender's](#) [Servicing Fee](#).

Section 209 Remittance Procedures



The **Servicer** must remit to Fannie Mae collections and other amounts due by the specified **Remittance Date** established for each product type.

209.01 Definitions

For purposes of this Section, the following terms shall have the definitions set forth below.

209.01A Interest Distribution Amount

For each **Mortgage Loan**, the interest portion, adjusted to the **Pass-Through Rate** of the monthly installment (without regard as to whether such amount was collected), due on the first day of the month in which a **Remittance Date** occurs or which becomes due at any time during the preceding month except the first day thereof.

209.01B Principal Distribution Amount

For each **Mortgage Loan**, the total of (1) the principal portion of the monthly installment due during the period beginning on the second day of the month preceding the month in which a **Remittance Date** occurs and ending on the first day of the month in which a **Remittance Date** occurs, without regard as to whether such amount was collected, and (2) any unscheduled principal recovery collected on a **Mortgage Loan** during the month preceding the month in which a **Remittance Date** occurs.

209.01C Monthly Remittance

The total of the Interest Distribution Amount and Principal Distribution Amount to be remitted to Fannie Mae on each **Remittance Date**.

209.01D Remittance Dates

The **Remittance Date** is the date the **Servicer** is to make its monthly remittance to Fannie Mae for each **Mortgage Loan**.

209.02 Monthly P&I Remittance Dates for Cash and MBS Transactions

Monthly **P&I** remittances are due on the following designated **Remittance Dates** unless other dates are provided for in the **Lender's Contract**:



Mortgage Loan Type	Monthly P&I Remittance Date
All Cash Fixed Rate, ARM and PFP MBS Mortgage Loans, except as noted below	18th calendar day of each month (or preceding Business Day if the 18th calendar day is not a Business Day).
ARM Mortgage Loans (including ARM Mortgage Loans that are backing a PFP MBS) purchased for Cash on or after May 25, 2000	11th calendar day of each month (or preceding Business Day if the 11th calendar day is not a Business Day).
Cash Structured ARM Mortgage Loans (including Structured ARM Mortgage Loans that are backing a PFP MBS)	1st calendar day of each month (or preceding Business Day if the 1st calendar day is not a Business Day). The Structured ARM Note will obligate the Borrower to make its payment to the Servicer two (2) Business Days prior to the 1st calendar day of each month in order to provide sufficient time to the Servicer to receive and process this payment.
Securitized Mortgage Loans and MBS Structured ARM Mortgage Loans	18th calendar day (or preceding Business Day if the 18th calendar day is not a Business Day) of the month following the month in which the Security is issued and the 18th calendar day of each month thereafter, up to and including the month in which the Security Balance drops to zero. For example, if the Mortgage Loan Maturity Date is November 1, and the scheduled balloon payment due on that date reduces the Security Balance to zero, the last Security monthly remittance would be due on November 18 (not December 18).

209.03 Remittance Dates for Cash Mortgage Loan Payoffs



For Cash Mortgage Loans, the Servicer must transmit (remit) funds through the Cash Remittance System on the next Business Day following receipt of any of the following Mortgage Loan payoff transactions:

- Full prepayments (payoff of the Mortgage Loan prior to the scheduled maturing date);
- Partial prepayments; or
- Prepayment Premiums.

209.04 Use of Cash Remittance System and Requirements

To designate a drafting arrangement for a Custodial Account under the Cash Remittance System, the Servicer must make the appropriate arrangements through its custodial bank(s). When those arrangements have been made, the Servicer must use the Cash Remittance System to electronically transmit information about the drafting arrangement to Fannie Mae via <https://multifamily.fanniemae.com>. The Servicer must transmit the appropriate information and submit Authorization for Automatic Transfer of Funds (Form 1055) to Fannie Mae at least ten (10) days before the date on which the Servicer will first need to transmit remittance information for funds that are in the new account.

209.05 Cash Mortgage Loans – Transmitting the Remittance

209.05A Use of Cash Remittance System

Depending on the type of Mortgage Loan, the Servicer must remit funds through the Cash Remittance System on the Business Day immediately prior to the applicable Remittance Date.

209.05B Required Date for Commencement of Remittance

Remitting funds for any Cash Mortgage Loan must commence with the month following the month Fannie Mae acquired the Mortgage Loan unless the Mortgage Loan was originated during the month in which it was purchased by Fannie Mae, in which case the first monthly remittance will commence the second month following the month Fannie Mae acquired the Mortgage Loan.

209.05C Remittance Transaction Codes



The **Cash Remittance System** relies on remittance type codes to identify the product and execution for which the **Servicer** is remitting funds. The remittance type codes related to **P&I** and special remittances are linked to the specific drafting account that the **Servicer** has identified for the applicable product and execution. The **Servicer** can be linked to only one drafting account whether that account is the **P&I Custodial Account** for the applicable product and execution serviced under each unique nine-digit **Servicer** number or the consolidated drafting account. The **Servicer** must ensure that its drafting instructions (specifically the assignment of remittance type codes) to individual accounts are coordinated with the internal processing of funds within its organization.

The **Servicer** must assure that its transmissions to Fannie Mae include all of the detail necessary for transmission. This will facilitate better identification of the transactions and ensure timely and accurate processing.

209.06 Securitized Mortgage Loans – Drafting the Remittance – Funds Drafted under Automated Drafting System (Not Applicable to PFP MBS)

The **Servicer** must make the funds representing the **Security** monthly remittance available for drafting under the **Automated Drafting System**. To establish a drafting arrangement for a custodial account under the **Automated Drafting System** (or to change an existing arrangement), the **Servicer** must void a check from the designated account and enter its nine-digit Fannie Mae identification number in the space where the authorized signature would normally appear. The **Servicer** must then send the voided check and an executed Multifamily Authorization for Automatic Transfer of Funds (**Form 1055**) for each drafting arrangement to its custodial bank(s). At the same time, the **Servicer** must send copies of both the voided check and **Form 1055** to Fannie Mae.

When the **Servicer** remits funds related to Pooled Securitized Mortgage Loans through the **Automated Drafting System**, it must make the funds available for a single draft, regardless of the number of **Security Pools** it services. The amount of the draft will be the sum of the **P&I** (calculated at the **Security** pass-through rate) distributions for that month.

209.07 Additional Requirements for Monthly Remittance for Security Transactions

209.07A Amount of Security Monthly Remittance



The **Security** monthly remittance is the total of the Security Interest Distribution and Security Principal Distribution Amounts. For each month, the **Security** monthly remittance must include the scheduled principal payment due on the first day of that month plus a full month's interest (calculated at the **Security Pass-Through Rate**) due in arrears for the previous month. It also may include unscheduled prepayments of principal.

The **Servicer** is required to pass through to Fannie Mae in each **Security** monthly remittance, the full scheduled amounts of **P&I**, regardless of whether such amounts actually have been collected from the **Borrower**. A full month's interest (calculated at the **Security Pass-Through Rate**) must be included in each **Security** monthly remittance, regardless of whether there has been any partial or full prepayment during the month.

209.07B Security Interest Distribution Amount

The Security Interest Distribution Amount due is based on the **Security Balance** remaining after application of the scheduled **Mortgage Loan** payment due on the first of the previous month. For example, the Security Interest Distribution Amount due on November 18 would be based on the **Security Balance** remaining after application of the scheduled **Mortgage Loan** payment due on October 1 (not November 1).

209.08 Securitized Mortgage Loans – Remitting Fees to Fannie Mae

209.08A Guaranty Fee Due on 7th Calendar Day of Month

To compensate Fannie Mae for the liability it assumes in issuing the **Security**, Fannie Mae receives a **Guaranty Fee**. The **Guaranty Fee** is an obligation of the **Servicer** and must be paid in arrears on the 7th calendar day, or the preceding **Business Day** if the 7th calendar day is not a **Business Day**, of each month, even if there is no collection on the **Mortgage Loan** or the **Mortgage Loan** reaches its **Maturity Date** during the month. Payment of the **Guaranty Fee** begins with the month following the month in which the **Security** is issued. Fannie Mae will draft the **Guaranty Fee** from the **Servicer's** applicable designated **P&I Custodial Accounts** for **Securitized Mortgage Loans**.

The **Guaranty Fee** amount due Fannie Mae in any month is equal to either (a) for 30/360 interest accrual **Mortgage Loans**, one-twelfth of the annual **Guaranty Fee** rate times the **Security Balance** remaining after application of the scheduled **Mortgage Loan** principal



payment due on the first day of the previous month, or (b) for Actual/360 interest accrual [Mortgage Loans](#), the annual [Guaranty Fee](#) rate divided by 360 times the number of days occurring in the month immediately preceding the [Guaranty Fee](#) payment date times the [Security Balance](#) remaining after application of the scheduled [Mortgage Loan](#) principal payment due on the first day of the previous month. For example, for [Securitized Mortgage Loans](#) the [Guaranty Fee](#) amount due to Fannie Mae on November 7 is calculated on the [Security Balance](#) remaining after application of the scheduled [Mortgage Loan](#) principal payment due on October 1.

209.08B Guaranty Fee Remittance

The monthly [Guaranty Fee](#) must be remitted as long as the [Security](#) is outstanding, even if there is no collection activity on the [Mortgage Loan](#).

The [Servicer](#) must make funds available for the [Guaranty Fee](#) draft on the 7th calendar day of the month, or the preceding [Business Day](#) if the 7th is not a [Business Day](#).

Under this process, Fannie Mae will send an electronic notice (or "bill") on the 2nd or 3rd calendar day of each month. The draft notice will show the amount due for the [Guaranty Fees](#). When the [Servicer](#) receives the transmission, the [Servicer](#) must review the draft notice for accuracy. If discrepancies are identified, the [Servicer](#) must contact Fannie Mae by the 5th calendar day of the month to provide details on the amount and nature of the discrepancy. Fannie Mae will then review its records to validate the discrepancy and make any necessary adjustments to the [Guaranty Fee](#) bill. On the 7th calendar day of the month, Fannie Mae will draft the [Guaranty Fees](#) from the [Servicer's](#) designated [P&I Custodial Account](#) for [Securitized Mortgage Loans](#). If the 7th calendar day is not a [Business Day](#), the draft will take place on the preceding [Business Day](#).

209.08C Same Month Pooling – Interest and Guaranty Fee Remittance for First Reporting Cycle

The [Servicer's](#) first remittance to Fannie Mae for a [Mortgage Loan](#) submitted under the [Same Month Pooling](#) delivery option is an "interest-only" remittance because the [Borrower](#) will not have made the first payment. Accordingly, because the [Borrower](#) will not be required to send a monthly payment to the [Servicer](#) under [Same Month Pooling](#) until the month following the date the [Servicer's](#) first remittance is due to Fannie Mae, the [Servicer](#) will have to use some of its own funds to remit



the interest that is "scheduled" to be passed through to Fannie Mae for the **Mortgage Loan** in that month and to make the first required **Guaranty Fee** remittance. The interest remittance will represent one month's full interest, and will be equal to the **Issue Date** principal balance of the **Mortgage Loan** times either (a) for 30/360 interest accrual **Mortgage Loans**, one-twelfth of the annual **Pass-Through Rate** of the **Security**, or (b) for Actual/360 interest accrual **Mortgage Loans**, the annual **Pass-Through Rate** of the **Security** divided by 360 times the number of days occurring in the month of issuance of the **Security**. The **Guaranty Fee** payment will represent one month's full **Guaranty Fee**, and be calculated as provided in Part V, Chapter 2: Reporting and Remitting, Section 209.08A: **Guaranty Fee Due on 7th Calendar Day of Month** based on **Issue Date** principal balance of the **Mortgage Loan**.

Fannie Mae will not reimburse the **Servicer** for its interest or **Guaranty Fee** remittance. However, the **Servicer** must:

- receive a partial month's interest based on the **Note Rate** from the **Borrower** at closing (from the date of closing through the end of the month), and
- receive interest based on the **Pass-Through Rate** from the purchaser of the **Security** (from the first day of the month in which the **Security** is issued to the **Book-Entry Delivery Date**) as part of the sales proceeds for the **Security**.

209.09 Notification to Fannie Mae if Unable to Have Funds Available on any Remittance Date

If, for any reason, the **Servicer** cannot make funds available for drafting on the **Business Day** prior to the designated **Remittance Date**, it must immediately notify Fannie Mae by calling the **Servicer's Fannie Mae Representative**. The **Servicer** must describe to Fannie Mae all circumstances and conditions that prevent the monthly remittance from being made on time.

Section 210 Full Prepayments

210.01 Review of Applicable Loan Documents Required

When the **Servicer** receives a **Borrower's** notification of intent to prepay the **Mortgage Loan**, it must examine the specific **Note** (including any applicable addendum, exhibit, modification, or amendment) and **Security Instrument** (and any applicable rider, exhibit,



modification or amendment) to determine whether prepayment of the [Mortgage Loan](#) is permitted and, if so, under what conditions. The prepayment provisions of the actual [Mortgage Loan Documents](#) govern in each case.

210.02 Notification of Prepayment; Timing of Prepayment

210.02A Notice and Timing Consistent with Loan Documents

The [Borrower's](#) proposed prepayment date and the timing of its advance notification of its intent to prepay must be consistent with the provisions of the [Loan Documents](#).

210.02B Borrower Notice Must Contain Date of Intended Prepayment and Comply with Notice Requirements of the Loan Documents

The [Servicer](#) must obtain from the [Borrower](#) the date on which the [Borrower](#) will prepay the [Mortgage Loan](#). The [Borrower](#) must give the [Servicer](#) advance notice of its intent to make a full prepayment as required by the [Loan Documents](#).

210.02C Loan Document Requirements for Payoff and Lockout Dates

If a Fannie Mae form Multifamily Note evidences the [Mortgage Loan](#), a prepayment may be made only on the last [Business Day](#) before a scheduled [Mortgage Loan](#) payment date. Non-Fannie Mae form [Notes](#) may not contain the same requirement. Some [Notes](#) may contain lockout provisions that prohibit full prepayment for a specified period of time. The [Servicer](#) must not permit a payoff that does not comply with the requirements contained in the [Loan Document](#).

210.02D Notice to Fannie Mae of Proposed Payoff; Use of Fannie Mae Payoff Calculator

The [Servicer](#) must notify Fannie Mae, in writing or through the Fannie Mae Payoff Calculator, upon receiving notice from the [Borrower](#) of a planned prepayment. Notice of the planned prepayment must be received by Fannie Mae not later than 10 [Business Days](#) prior to the contemplated payoff date. The Fannie Mae Payoff Calculator may only be used when the Fannie Mae form Multifamily Note evidences the [Mortgage Loan](#).

210.03 Timing of Confirmation of the Full Prepayment Payoff Amount

The [Servicer](#) must ensure that the payoff figure quoted to the



Borrower is correct. Accordingly, before the **Servicer** advises the **Borrower** of the full prepayment payoff amount, the **Servicer** must confirm such amount with Fannie Mae. The **Servicer's** request for confirmation of the full prepayment payoff amount must be submitted to Fannie Mae at least 10 **Business Days** before the scheduled prepayment date. At least 5 **Business Days** prior to the scheduled prepayment date, the **Servicer** must provide the **Borrower** written confirmation of the amount required to pay off the **Mortgage Loan** in full.

210.04 Full Prepayment for Cash Transactions and PFP MBS

210.04A Confirming the Full Prepayment Payoff Amount

1. Calculating the Full Prepayment Payoff Amount

To obtain Fannie Mae's confirmation of the full prepayment payoff amount, the **Servicer** must either submit a written statement detailing all amounts that it believes will be due and payable by the **Borrower** on the prepayment date or submit the information through the Payoff Calculator, including:

- the **UPB** of the **Mortgage Loan** (as of the prepayment date);
- all accrued and to-be accrued interest, broken down into the net interest portion due to Fannie Mae (calculated at the **Pass-Through Rate**) and the portion to be retained by the **Servicer** as a **Servicing Fee**, calculated as if the payoff is occurring on the last day of the month in which the prepayment is occurring;
- any unpaid late fees, if applicable;
- any **Prepayment Premium** that is due in connection with the full prepayment, broken down into the portions due to Fannie Mae and the **Servicer**, respectively; and
- any other amounts due under the **Note**, **Security Instrument**, or any other **Mortgage Loan Document**, including, if applicable, any unpaid fee due under any **Collateral Agreement**.

2. Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer

Fannie Mae is not responsible for confirming any amounts owed to the **Servicer** at the time of the prepayment (e.g., any administrative fees due for services performed by the **Servicer** under a



Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes any amounts that are owed exclusively to the Servicer, as Fannie Mae will not reimburse the Servicer for such amounts from any of the funds that the Borrower remits to cover the amounts confirmed as being due to Fannie Mae.

3. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Primary Risk Mortgage Loans

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond in writing to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to Fannie Mae, as well as the individual items comprising such total amount, including:

- the UPB of the Mortgage Loan;
- the net accrued interest due Fannie Mae;
- any applicable Prepayment Premium (broken down into the portions due to Fannie Mae and the Servicer); and
- any previously unpaid fees or other amounts owed to Fannie Mae.

Fannie Mae will provide any pertinent instructions for completing the prepayment payoff process, including any specific instructions that the Servicer must include in its payoff quote to the Borrower.

4. No Quote to Borrower until Fannie Mae Confirmation for Primary Risk Mortgage Loans

To ensure that the Borrower is quoted the correct payoff amount, including any applicable accrued interest, Prepayment Premium, late fees, or other amounts that might be owed under the terms of the Note, the Security Instrument, or the other Mortgage Loan Documents, the Servicer must not quote a final payoff amount to the Borrower without first obtaining Fannie Mae's confirmation of the accuracy of the Servicer's figures.

5. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Secondary Risk Mortgage Loans



Unless the [Lender's Contract](#) provides otherwise, Fannie Mae will not review the [Servicer's](#) payoff calculation for [Secondary Risk Mortgage Loans](#). The [Servicer](#) is solely responsible for ensuring that any payoff quote given to the [Borrower](#) includes all amounts that are owed to Fannie Mae and to the [Servicer](#).

6. Servicer Liability

Whether confirmed by Fannie Mae through the Payoff Calculator or the payoff calculation is performed by the [Servicer](#), the [Servicer](#) is required to collect all amounts owing by the [Borrower](#) on a [Mortgage Loan](#) payoff. If Fannie Mae determines that [Servicer](#) has provided the [Borrower](#) incorrect information because of an error in the calculation of the payoff quote, the [Servicer](#) will be responsible for any shortfall and must remit all amounts due to Fannie Mae whether or not it has collected such amounts from the [Borrower](#).

210.04B Reporting Full Prepayment Payoff Amount

1. Full Prepayment Payoff Amount Received on First Business Day of Month

Notwithstanding anything to the contrary above, any full prepayment of a [Mortgage Loan](#) from or on behalf of a [Borrower](#) that is received by the [Servicer](#) on the first [Business Day](#) of a month will be deemed received in the prior calendar month for purposes of reporting and remitting such full prepayment.

2. Full Prepayment Reported through the eServicing System Due By 2nd Day of Month

The full prepayment must then be reported electronically to Fannie Mae through the eServicing System. The report of the full payment must be transmitted in time to reach Fannie Mae by the 2nd calendar day of the month following the month of prepayment.

210.04C Remitting Full Prepayment Payoff Amount

1. Using Pass-Through Rate to Calculate Remittance to Fannie Mae

The [Servicer](#) must use the [Pass-Through Rate](#) to calculate its P&I remittance to Fannie Mae. After collecting payoff proceeds, calculated in the manner described above at the [Gross Note Rate](#), the [Servicer](#) must subtract its [Servicing Fee](#), calculated using a per diem rate based on the interest accrual method provided for in the [Loan Documents](#).



2. Remittance Due on Next Business Day

Once the payoff amount is confirmed, the proceeds from a payment in full, including the [Prepayment Premium](#) (when required pursuant to the terms of the [Note](#), as modified by any Addendum), must be remitted to Fannie Mae via the [Cash Remittance System](#) on the next [Business Day](#) following the day on which the prepayment proceeds are received. This means that the [Servicer](#) must enter drafting information into the [Cash Remittance System](#) by 4:00 p.m. Eastern Time, on the day on which the prepayment proceeds are received.

210.05 Full Prepayment for Securitized Transactions (Not Applicable to PFP MBS)

210.05A Confirming the Full Prepayment Payoff Amount

1. Calculating the Full Prepayment Payoff Amount

To obtain Fannie Mae's confirmation of the final payoff amount for a [Securitized Mortgage Loan](#), the [Servicer](#) must submit a statement, detailing:

- All amounts that it has determined will be due and payable by the [Borrower](#) on the prepayment date, including:
 - the [UPB](#) of the loan (as of the prepayment date);
 - all accrued and to-be accrued interest, broken down into the net interest portion due to Fannie Mae (calculated at the [Pass-Through Rate](#)) and the portion to be retained by the [Servicer](#) as a [Servicing Fee](#), calculated as if the payoff is occurring on the last day of the month in which the prepayment is occurring;
 - any unpaid late fees, if applicable;
 - any [Prepayment Premium](#), if any, that is due in connection with the full prepayment specifying the respective portions due Fannie Mae, the [Security](#) certificate holder and [Servicer](#); and
 - any other amounts due under the [Note](#), [Security Instrument](#), or any other [Loan Document](#), including, if applicable, any unpaid fee due under any [Collateral Agreement](#).

- All amounts that will be due and payable to Fannie Mae by the [Servicer](#) on the 18th of the month following the month of prepayment, including:



- the UPB of the loan;
- a full month's accrued interest, calculated at the MBS Pass-Through Rate;
- any applicable Prepayment Premium broken down into the portions due to the MBS investor, the Servicer, and Fannie Mae calculated in accordance with the Guide; and
- any previously unpaid fees or other amounts owed to Fannie Mae.

2. Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the prepayment (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae, and the MBS investor, if applicable.

3. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Primary Risk Mortgage Loans

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies for Primary Risk Mortgage Loans. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond (in writing) to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to the Servicer from the Borrower, and will also separately confirm the amounts due to Fannie Mae from the Servicer, as well as individual items comprising such total amounts, including:

- the UPB of the Mortgage Loan; and
- accrued interest due:
 - to the Servicer from the Borrower;
 - a full month's accrued interest due Fannie Mae;
- any applicable Prepayment Premium (broken down into the portions due to Fannie Mae, the Servicer, and the MBS investor); and



- any previously unpaid fees or other amounts owed to Fannie Mae.

4. No Quote to Borrower Until Fannie Mae Confirmation for Primary Risk Mortgage Loans

To ensure that the **Borrower** is quoted the correct payoff amount, including any applicable accrued interest, **Prepayment Premium**, late fees, or other amounts that might be owed under the terms of the **Note**, the **Security Instrument**, or the other **Mortgage Loan Documents**, the **Servicer** must not quote a final payoff amount to the **Borrower** without first obtaining Fannie Mae's confirmation of the accuracy of the **Servicer's** figures.

5. Fannie Mae Confirmation of Full Prepayment Payoff Amount for Secondary Risk Mortgage Loans

Fannie Mae will not review the **Servicer's** payoff calculation for **Secondary Risk Mortgage Loans**. The **Servicer** is solely responsible for ensuring that any payoff quote given to the **Borrower** includes all amounts that are owed to Fannie Mae and to the **Servicer**.

6. Servicer Liability

Whether confirmed by Fannie Mae through the Payoff Calculator or the payoff calculation is performed by the **Servicer**, the **Servicer** is required to collect all amounts owing by the **Borrower** on a **Mortgage Loan** payoff. If Fannie Mae determines that **Servicer** has provided the **Borrower** incorrect information because it quotes a final payoff amount to the **Borrower** prior to Fannie Mae confirmation or has erred in its calculation of the payoff quote where Fannie Mae confirmation is not provided, the **Servicer** will be responsible for any shortfall and must remit all amounts due to Fannie Mae whether it has collected such amounts from the **Borrower**.

210.05B Reporting Full Prepayment Payoff Amount

1. Security Reporting

By the second **Business Day** of the month following the month of prepayment, the **Servicer** must report the amount of the **Prepayment Premium** collected to Fannie Mae via the eServicing System in accordance with the reporting requirements provided in this Chapter.

2. Mortgage Loan Reporting Requirements

The **Servicer** must report the prepayment amount, including any applicable **Prepayment Premium**, to Fannie Mae by the second



Business Day of the month following the month in which the prepayment occurs in accordance with the reporting requirements provided in this Chapter.

210.05C Remitting Full Prepayment Payoff Amount

1. Using Pass-Through Rate to Calculate Remittance to Fannie Mae

Under **MBS**, the **Servicer** must remit a full month's accrued interest (calculated at the **MBS Pass-Through Rate**) for each month that the **MBS** is outstanding, even if a full or partial prepayment occurs during that month. Any shortfall between the interest collected from the **Borrower** and the full month's interest that is due to Fannie Mae must be deposited in the **Servicer's MBS P&I Custodial Account** from the **Servicer's** own funds and remitted to Fannie Mae. The **Servicer** must also remit a full month's **Guaranty Fee** for each month that the **MBS** is outstanding, even if a full or partial prepayment occurs during that month.

2. Remittance Due on 18th Calendar Day

The **Servicer** must remit the prepayment amount due Fannie Mae on the 18th calendar day of the month (or the preceding **Business Day** if the 18th is not a **Business Day**) following the month in which the payoff occurs in accordance with remittance requirements contained in this Chapter.

Section 211 Partial Prepayments Not From Insurance or Condemnation Proceeds

211.01 Partial Prepayments Generally Prohibited

Partial prepayment of the outstanding balance of any **Mortgage Loan** is prohibited unless explicitly permitted in the **Mortgage Loan Documents**. Under certain circumstances, to the extent permitted in the **Mortgage Loan Documents**, the proceeds of a **Letter of Credit** held pursuant to an **Achievement Agreement** or deposits held under a **Replacement Reserve Schedule** or other **Collateral Agreement** may be applied as a partial prepayment of the **Mortgage Loan**.

211.02 Partial Prepayment Procedures

211.02A Servicer's Analysis of Loan Documents



Any request from the [Borrower](#) for permission to make a partial prepayment must be forwarded to the [Servicer's Fannie Mae Representative](#), along with the [Servicer's](#) analysis and recommendation. The [Servicer](#) must carefully examine the [Mortgage Loan Documents](#) to determine if partial prepayments are permitted and, if so, under what conditions and whether a [Prepayment Premium](#) is required. The [Servicer's](#) analysis of the request must include information about:

- the event or condition precipitating the prepayment request;
- the amount of principal that would be prepaid;
- the estimated [Prepayment Premium](#), if any, that would be due in connection with the partial prepayment;
- any proposed recasting of the [Mortgage Loan](#) or other modification of the repayment terms; and
- the proposed timing of the prepayment.

211.02B Fannie Mae Approval Required for Partial Prepayments

Unless the [Loan Documents](#) expressly permit partial prepayments, Fannie Mae's approval is required before any partial prepayment is made. If the [Servicer's Fannie Mae Representative](#) agrees to allow or requires a partial prepayment to be made, it will advise the [Servicer](#) in writing of any specific conditions that will apply to such partial prepayment. Such specific conditions may include:

- when and how the prepayment must occur;
- whether a [Prepayment Premium](#) must be paid; and
- whether the [Mortgage Loan](#) repayment terms will be altered and, if so, how the [Mortgage Loan Documents](#) would have to be modified to reflect such alterations, etc.

Any decision to modify the [Mortgage Loan](#) repayment terms in connection with the partial prepayment will be made by Fannie Mae, in its sole and absolute discretion.

211.02C Prepayment Premium Due on Partial Prepayment

When a [Prepayment Premium](#) is required in connection with any partial prepayment, the [Prepayment Premium](#) is assessed on the amount of principal being prepaid and not on the outstanding [UPB](#) of



the [Mortgage Loan](#) calculated and verified in the same manner as is required for full prepayments.

211.02D Reporting and Remitting Partial Prepayments When Not Permitted in Loan Documents

Partial prepayments must be reported in the same manner as is required for full prepayments. When Fannie Mae's approval is received, the proceeds representing the partial prepayment, including the [Prepayment Premium](#) (when required pursuant to the terms of the [Loan Documents](#)), must be remitted to Fannie Mae in the same manner and timeframe as required for full prepayments.

211.02E Reporting and Remitting Partial Prepayments When Permitted in Loan Documents

Fannie Mae approval is not required when the [Loan Documents](#) permit partial prepayments. Any such partial prepayments must be reported and remitted to Fannie Mae in the same manner and timeframe as is required for monthly remittances.

Section 212 Prepayments (Full or Partial) Involving Insurance Proceeds or Condemnation Awards

212.01 Partial Prepayments Generally Permitted

Partial prepayment of the [Mortgage Loan](#) is generally permitted for the application of the proceeds of an insurance claim or a condemnation award. [Servicer](#) must follow the requirements contained in the [Loan Documents](#) in connection with any such partial prepayment.

212.02 No Prepayment Premium Required

The [Borrower](#) is **not** required to pay a [Prepayment Premium](#) in connection with any prepayment that occurs as a result of the application to the [Mortgage Loan](#) of insurance proceeds or condemnation award proceeds, regardless of when during the [Mortgage Loan](#) term such prepayment occurs.

212.03 Reporting and Remitting Partial Prepayments

The proceeds representing the partial prepayment must be reported and remitted to Fannie Mae in the same manner and



timeframe as is required for monthly remittances.

Section 213 Prepayment Premium Sharing

213.01 General

The [Lender Contract](#) governs over the requirements of the [Guide](#) if it specifies whether the [Lender](#) or [Servicer](#) is entitled to retain a portion of any [Prepayment Premium](#) paid by the [Borrower](#). If the [Lender Contract](#) provides that the [Lender](#) or [Servicer](#) is entitled to retain a portion of the [Prepayment Premium](#), then the [Servicer](#) must calculate the applicable share of the [Prepayment Premium](#) owed to the [Lender](#) or [Servicer](#), and remit to Fannie Mae that portion of the [Prepayment Premium](#) owed to Fannie Mae or the [Investor](#). If the [Lender Contract](#) provides that the [Lender](#) or [Servicer](#) is not entitled to retain a portion of the [Prepayment Premium](#), then the entire [Prepayment Premium](#) must be remitted to Fannie Mae.

If the [Lender Contract](#) does not specify whether the [Lender](#) or [Servicer](#) is entitled to retain a portion of any [Prepayment Premium](#), then the [Servicer](#) is entitled to retain a portion of any [Prepayment Premium](#) only as provided below.

The [Servicer](#) must always remit the portion of the [Prepayment Premium](#) due to the [Investor](#) and to Fannie Mae with the final [Mortgage Loan](#) payment via ACH using the [Multifamily Authorization for Automatic Transfer of Funds \(Form 1055\)](#), retaining the balance of the [Prepayment Premium](#) due the [Servicer](#) as provided above. Upon receipt, Fannie Mae will pass through the portion of the [Prepayment Premium](#) due to the [Investor](#).

213.02 Yield Maintenance Prepayment Premiums – Prepayment Occurs Before the Yield Maintenance Period End Date

213.02A Calculation of Total Prepayment Premium

For any prepayment that occurs before the [Yield Maintenance Period End Date](#), the [Servicer](#) must first determine the total [Prepayment Premium](#) owing by the [Borrower](#) in accordance with the [Loan Documents](#). The [Loan Documents](#) generally require the [Borrower](#) to pay a [Prepayment Premium](#) equal to the greater of (i) 1% of the [UPB](#) (the “[Minimum 1% Prepayment Premium](#)”), or (ii) [yield maintenance](#).



213.02B Calculation of Investor's Share of Total Prepayment Premium for a Securitized Mortgage Loan

Fannie Mae does not guaranty payment of any portion of the Prepayment Premium to the Investor. The Investor only receives a share of any Prepayment Premium actually received from the Borrower. For a Securitized Mortgage Loan, the Servicer must calculate the Investor's share of the total Prepayment Premium. The Investor's portion is equal to the total Prepayment Premium multiplied by a ratio equal to: $\text{Pass-Through Rate} / \text{Gross Note Rate}$.

213.02C Calculation of Fannie Mae's Share of Total Prepayment Premium

For both Securitized Mortgage Loans and Cash Mortgage Loans, the Servicer must calculate Fannie Mae's share of the total Prepayment Premium. If the Prepayment Premium is greater than the Minimum 1% Prepayment Premium, the difference between the total Prepayment Premium and the portion due to the Investor will be shared between Fannie Mae and the Servicer. Fannie Mae's share of the total Prepayment Premium is equal to the total Prepayment Premium multiplied by a ratio equal to: $\text{Guaranty Fee} / \text{Gross Note Rate}$.

If the total Prepayment Premium is equal to the Minimum 1% Prepayment Premium, the entire portion of the Prepayment Premium remaining after any Investor portion has been determined will be due to Fannie Mae and no portion will be due the Servicer.

213.02D Calculation of Servicer's Share of Total Prepayment Premium

The Servicer is only entitled to retain a portion of the Prepayment Premium if the Prepayment Premium exceeds the Minimum 1% Prepayment Premium. The Servicer's share of the total Prepayment Premium will be equal to the total Prepayment Premium multiplied by a ratio equal to: $\text{Servicing Fee} / \text{Gross Note Rate}$.

213.03 Yield Maintenance Prepayment Premiums – Prepayment Occurs On or After the Yield Maintenance Period End Date

213.03A Prepayment On or After Yield Maintenance Period End Date

The Loan Documents may provide that any full prepayment that occurs on or after the Yield Maintenance Period End Date but before a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the



Maturity Date occurs), must be accompanied by a Prepayment Premium equal to a stated amount (usually 1% of the UPB of the Mortgage Loan). Neither the Investor nor the Servicer is entitled to any portion of any Prepayment Premium paid on or after the Yield Maintenance Period End Date. The entire Prepayment Premium must be remitted to Fannie Mae.

213.03B Prepayment During Open Period

The Loan Documents may provide that the Borrower is not required to pay any Prepayment Premium in connection with a full prepayment made on or after a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the Maturity Date occurs).

213.04 Fixed Rate Mortgage Loans with Graduated Prepayment Premiums

For fixed rate Mortgage Loans where the Loan Documents require a graduated Prepayment Premium, the Servicer is not entitled to retain any portion of the Prepayment Premium. The entire Prepayment Premium must be remitted to Fannie Mae.

213.05 Prepayment Premiums for ARM Loans and Structured ARM Loans

Unless the prepayment of an ARM Loan that used Prepayment Option 1 or Prepayment Option 2, or of a Structured ARM Loan is the result of a casualty or condemnation, any prepayment made before a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the Maturity Date occurs) must include a Prepayment Premium that will be shared between Fannie Mae and the Servicer. The Investor is not entitled to receive any portion of the Prepayment Premium for either an ARM Loan or a Structured ARM Loan. In each case, Fannie Mae's share will be a percentage determined by the following formula:

$\frac{\text{Guaranty Fee}}{\text{Guaranty Fee} + \text{Servicing Fee}}$
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For example, if the Guaranty Fee is 62.5 basis points and if the Servicing Fee is 45 basis points, then Fannie Mae's share will be:

$\frac{62.5}{(62.5 + 45)}$	or	58.14%.
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The **Servicer** must remit the portion of the **Prepayment Premium** due Fannie Mae with the final **Mortgage Loan** payment. The **Servicer** may retain the balance of the **Prepayment Premium**.

No **Prepayment Premium** is due in connection with an **ARM Loan** with a conversion option or with a **Structured ARM Loan** that is converting to a fixed rate **Mortgage Loan**.

213.06 Prepayment Premium Waivers; Servicer's Share of Prepayment Premium

The **Servicer** may not waive any portion of the **Prepayment Premium** due and owing under the **Loan Documents**, except as provided in **Part III, Chapter 18: Choice Refinance Loans, Section 1803: Prepayment Premiums** in connection with a **Choice Refinance Loan**.

No portion of the **Servicer's** share of the **Prepayment Premium** may be:

- waived by the **Lender**;
- used as a rebate to the **Borrower**, or any party related to the **Borrower**, for any purpose; or
- used for the payment of any expenses related to any loan used to refinance the **Mortgage Loan**.

Section 214 **Maturing Mortgage Loans/Payoffs**

214.01 Balloon Mortgage Loans

Fannie Mae expects any **Borrower** with a **Balloon Mortgage Loan** to refinance or otherwise pay off the **Mortgage Loan** in full on (or before) the scheduled **Maturity Date**. Failure to pay off the **Mortgage Loan** in full on (or before) the scheduled **Maturity Date** is a default and puts the **Borrower** at risk that Fannie Mae will exercise any available remedy under the **Security Instrument** and the other **Loan Documents**. Whenever a **Borrower** fails to pay off a **Balloon Mortgage Loan** on its **Maturity Date**, the **Servicer** must notify its **Fannie Mae Representative** of such failure as soon as possible, and must report the balloon payment default on the **Multifamily Delinquency System®**. Any acceptance of a payoff amount occurring after the **Balloon Mortgage Loan's** stated **Maturity Date** must be approved by Fannie Mae.

214.02 Servicer Notification of Payoff Amount to Borrower



At least 5 days prior to the scheduled **Maturity Date** of the **Mortgage Loan**, the **Servicer** must advise the **Borrower** in writing of the amount required to pay off the **Mortgage Loan** in full. The **Servicer** must ensure that the payoff figure quoted to the **Borrower** is correct.

214.03 Calculating and Obtaining Confirmation of Payoff Amount

214.03A Calculating the Full Payoff Amount

The **Servicer's** request for verification of the final payoff amount must be submitted to Fannie Mae at least 10 days before the scheduled **Maturity Date**. To obtain Fannie Mae's confirmation of the final payoff amount, the **Servicer** must submit a statement, detailing all amounts that it believes will be due and payable by the **Borrower** on the payoff date, including:

- the **UPB** of the **Mortgage Loan** (as of the payoff date);
- accrued interest, up to the payoff date, broken down into the net interest portion due to Fannie Mae (calculated at the **Pass-Through Rate**) and the portion to be retained by the **Servicer** as a **Servicing Fee**;
- any unpaid late fees, if applicable; and
- any other amounts due under the **Note**, **Security Instrument**, or any other **Mortgage Loan Document**, including, if applicable, any unpaid fee due under any **Collateral Agreement**.

214.03B Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer

Fannie Mae is not responsible for confirming any amounts owed to the **Servicer** at the time of the payoff (e.g., any administrative fees due for services performed by the **Servicer** under a **Collateral Agreement**); however, the **Servicer's** payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae. The **Servicer** is solely responsible for ensuring that any payoff quote given to the **Borrower** includes any amounts that are owed exclusively to the **Servicer**, as Fannie Mae will not reimburse the **Servicer** for such amounts from any of the funds that the **Borrower** remits to cover the amounts confirmed as being due to Fannie Mae.

214.03C Fannie Mae Confirmation of Full Payoff Amount



Fannie Mae will review the [Servicer's](#) figures and contact the [Servicer](#) to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond (in writing) to the [Servicer's](#) verification request. In its response, Fannie Mae will confirm the total payoff amount due to Fannie Mae, as well as the individual items comprising such total amount, including:

- the [UPB](#) of the [Mortgage Loan](#);
- the net accrued interest due Fannie Mae;
- any applicable [Prepayment Premium](#); and
- any previously unpaid fees or other amounts owed to Fannie Mae.

Fannie Mae also will provide any pertinent instructions for completing the payoff process, including any specific instructions that the [Servicer](#) must pass along to the [Borrower](#) with the payoff quote.

214.03D No Quote to Borrower Until Fannie Mae Confirmation

To ensure that the [Borrower](#) is quoted the correct payoff amount, including any applicable accrued interest, [Prepayment Premium](#), late fees, or other amounts that might be owed under the terms of the [Note](#), the [Security Instrument](#), or the other [Mortgage Loan Documents](#), the [Servicer](#) must not quote a final payoff amount to the [Borrower](#) without first obtaining Fannie Mae's confirmation of the accuracy of the [Servicer's](#) figures.

214.04 Reporting the Payoff and Remitting the Payoff Funds

214.04A Reporting Full Payoff Amount Through the eServicing System Due By 2nd Business Day of Month

The full payoff must be reported electronically to Fannie Mae through the eServicing System. The report of the full payment must be transmitted in time to reach Fannie Mae by the 2nd [Business Day](#) of the month following the month of payoff.

214.04B Remitting Full Payoff Amount

1. Using Pass-Through Rate to Calculate Remittance to Fannie Mae

The [Servicer](#) must use the [Pass-Through Rate](#) to calculate its



P&I remittance to Fannie Mae. After collecting payoff proceeds, calculated in the manner described above at the [Gross Note Rate](#), the [Servicer](#) must subtract its [Servicing Fee](#), calculated using a per diem rate based on a 360-day year.

2. Remittance Due on Next Business Day for Cash Mortgage Loans or Next Remittance Cycle for Securitized Mortgage Loans

After the payoff amount is confirmed, the proceeds from a payment in full, including any applicable [Prepayment Premium](#) (when required pursuant to the terms of the [Note](#)), must be remitted via the Fannie Mae [Cash Remittance System](#):

- for [Cash Mortgage Loans](#), on the next [Business Day](#) following the day on which the prepayment proceeds are received and the [Servicer](#) must enter drafting information into the [Cash Remittance System](#) by 4:00 p.m. Eastern Time, on the day on which the payoff proceeds are received; or
- for [Securitized Mortgage Loans](#), the [Servicer](#) must follow the reporting and remitting procedures for monthly installment reporting and remitting.

Section 215 Post-Payoff Actions

215.01 Servicer Required Actions

215.01A General

To facilitate the return of release documents from Fannie Mae, at all times the [Servicer](#) must maintain on file with Fannie Mae a master file copy of the Custody Document Transmittal ([Form 276](#)) completed with the following information:

- the [Lender's](#) nine digit [Servicer](#) number;
- "MASTER FORM" entered for the Fannie Mae [Loan Number](#);
- "Payoff" checked as the liquidation reason; and
- the [Lender's](#) mailing address.

The completed form must be sent to [Multifamily Master](#)



Servicing. If the mailing information for the **Lender** changes at any time, the **Lender** must update the master file copy of the Custody Document Transmittal (**Form 276**) with Fannie Mae.

215.01B Individual Mortgage Loan Releases

For each **Mortgage Loan**, upon receipt of the payoff funds from the **Borrower**, the **Servicer** must:

- refund to the **Borrower** any **T&I** escrow funds and any **Replacement Reserve** funds still held by the **Servicer** in connection with the **Mortgage Loan** (must be accomplished within 30 days of the payoff); and
- send the following to Fannie Mae:
 - if the release documents are to be sent to a different mailing address than that listed on the master file copy of the Custody Document Transmittal (**Form 276**) with Fannie Mae, a transaction-specific Custody Document Transmittal (**Form 276**), requesting Fannie Mae to return the original **Note** and indicating the different address to which the release documents for that specific **Mortgage Loan** should be sent;
 - for all recorded **Loan Documents** (e.g., **Security Instrument**) that require a release, the appropriate release document for the state in which the **Property** is located; and
 - a request to Multifamily Servicing to release any additional collateral still held by Fannie Mae in connection with the **Mortgage Loan**.

Fannie Mae will execute the necessary releases, and return them, along with the original **Note** (appropriately marked or stamped to evidence full satisfaction), to the **Servicer**. The **Servicer** must return the **Note** to the **Borrower**, file the appropriate **UCC** termination forms and arrange to have the release documents recorded. Fannie Mae will be responsible for returning any applicable **Achievement Letter of Credit** to the issuer for cancellation.

215.02 Post Payoff Document Retention Requirements

Following its return to the **Servicer** of the **Note** and the



releases for all recorded Loan Documents, Fannie Mae will forward its file for the Mortgage Loan to the Servicer. The Servicer must retain the entire Mortgage Loan Servicing File for 7 years after a Mortgage Loan payoff.

Section 216 DUS Bond Credit Enhancement Transactions – Reporting and Remitting Requirements

The requirements of this Section are applicable to Bond Credit Enhancement Transactions only and the Servicer's reporting, collection, and remitting of prepayments must be done in accordance with the procedures described below.

216.01 Monthly Bond Credit Enhancement Reporting

For reporting purposes, the Servicer must segregate its DUS Bond Credit Enhancement portfolio into 2 groups:

- DUS Bond Credit Enhancement by Credit Enhancement Instrument and Collateral Agreement; or
- DUS Bond Credit Enhancement by a Security.

The Servicer must electronically submit a Credit Enhancement Activity Report (Form 4090) using the Credit Enhancement Servicing and Investor Reporting System (CESIR) for each DUS Bond Credit Enhancement Mortgage Loan and Bond each month. The date that the Credit Enhancement Activity Report is due is dependent on whether the Mortgage Loan's monthly P&I payments are due on the first of the month or on the 15th of the month.

The Servicer must register to use CESIR prior to use. Information regarding registering for CESIR can be found on <https://multifamily.fanniemae.com/applications-technology/cesir>.

For most DUS Bond Credit Enhancements, the monthly reporting rule is applied as follows:

- If the Mortgage Loan payments are due on the first of the month, the report is due on the fourth calendar day of the month or the next Business Day if the fourth calendar day of the month is not a Business Day; or
- If the Mortgage Loan payments are due on the 15th day of the month, the report is due on the 15th calendar day of the



same month or the next **Business Day** if such day is not a **Business Day**.

The monthly report must include:

- all scheduled **Mortgage Loan** payments to be made by the **Borrower** whether or not such payments are actually made by the **Borrower**; and
- bond redemptions reported by the **Bond Trustee** for the current calendar month.

216.02 Monthly Remittance Procedures

216.02A Monthly Remittances of Scheduled Payments to Bond Trustee

Monthly remittances to the **Bond Trustee** depend on the execution type for the transaction and applicable transaction requirements.

1. Standby Execution

For **Standby** executions, the **Servicer** must pay the Scheduled Payments (net of the Facility Fee) to the **Bond Trustee**. The **Servicer** must make the payment to the **Bond Trustee** by wire transfer of same day funds on or before the 5th **Bond Business Day** before the day on which the bond payment is due to be made by the **Bond Trustee** to the bondholders. **Bond Business Day** is determined under the **Bond Indenture** for each separate **Bond** transaction.

2. Direct Pay Execution

For direct pay executions, the **Servicer** must perform the following:

a. The **Servicer** must pay to the **Bond Trustee**, by wire transfer of same day funds on the **Bond Payment Date**, the following components of the Scheduled Payment:

- (1) the **PRF** deposit;
- (2) the periodic fees payable to the **Issuer**, **Bond Trustee**, **Rebate Analyst**, any **Compliance Monitor**, **Remarketing Agent** and **Tender Agent** and any other similar person; and
- (3) any other requirement, as specified in the **Reimbursement Agreement**.



b. The **Servicer** must remit the following components of the Scheduled Payment to Fannie Mae in reimbursement of any related Advance under the credit enhancement as provided in this Section:

(1) the interest component; and

(2) any principal component which is to amortize immediately the **Mortgage Loan** and is not to be deposited into the **PRF**.

c. For **Direct Pay Weekly Variable Rate** transactions where the **Borrower** is obligated to make its payments 2 **Business Days** prior to the 15th of each month and the bondholders must be paid on the 15th of each month, the **Servicer** must make its payments by wire transfer of same day funds on the 1st or 15th calendar day of each month. Other requirements may apply, as specified in the Reimbursement Agreement.

216.02B Replenishment of Withdrawals from the PRF

If the **Borrower** pays the **Servicer** any amount to replenish a withdrawal from the **PRF**, the **Servicer** shall pay such amount to the **Bond Trustee** not later than 2:00 p.m. Eastern Time, no later than the **Business Day** immediately after receipt of such monies from the **Borrower**.

216.02C Collection and Remittance of Borrower Reimbursement Obligations for Fannie Mae Advances

The **Servicer** must pay the following amounts to Fannie Mae:

1. The interest component of the Scheduled Payment and principal component of the Scheduled Payment which is to amortize immediately the **Mortgage Loan** and is not to be deposited into the **PRF**. Such amounts reimburse Fannie Mae for the related Advance under a **Credit Enhancement Instrument** or **Collateral Agreement**.

2. Any accrued and unpaid Activity Fee.

3. Any other amounts due to Fannie Mae under the Reimbursement Agreement other than the Facility Fee.

Fannie Mae will draft such amounts so as to be received by Fannie Mae no later than the **Business Day** immediately after the receipt of such monies from the **Borrower**.

The **Servicer** must also collect from the **Borrower** and remit to



Fannie Mae any other fees, expenses or additional costs due from the **Borrower** to Fannie Mae under the Reimbursement Agreement. Fannie Mae and/or the **Bond Trustee** will notify the **Servicer** regarding any such amounts to be invoiced by the **Servicer** for payment by the **Borrower** under the Reimbursement Agreement, the Financing Agreement or other Transaction Document.

216.02D Monthly Remittance of Fees to Fannie Mae

Fannie Mae will draft the Facility Fee, net of the **Servicer's Servicing Fee** each month. Fannie Mae will draft such amounts 4 calendar days after such amount is scheduled to be paid by the **Borrower** under the applicable Transaction Document. If the fourth calendar day is not a **Business Day**, then such draft will be made on the next **Business Day**.

216.02E Notice and Collection of Other Fees and Expenses

At the written request of the **Bond Trustee** or if the Reimbursement Agreement or the Financing Agreement requires the **Borrower** to make such payments through the **Servicer**, the **Servicer** will invoice the **Borrower** for any fees and expenses payable by the **Borrower** to the (1) **Issuer**, (2) **Bond Trustee**, (3) **Rating Agency**, (4) **Remarketing Agent**, (5) **Rebate Analyst**, (6) **Compliance Monitor** or (7) **Custodian**.

The **Servicer's** invoice must require the **Borrower** to pay all such amounts to the **Servicer** not later than the earlier of ten days following the receipt of the invoice or the **Business Day** such amounts become due. The **Servicer** will remit all such payments received from the **Borrower** to the **Bond Trustee**, the **Rating Agency**, or **Custodian**, as applicable, and, if to the **Rating Agency** or **Custodian**, with notice to the **Bond Trustee** of such payment.

216.03 Prepayments – General Introduction

When a **Borrower** prepays a **Mortgage Loan** in a DUS Bond Credit Enhancement in whole or in part, the bonds also will be prepaid or redeemed in whole or in part on a corresponding basis. This is the starting point for the analysis of the obligations of the **Borrower** to account for any fees payable on account of the prepayment or redemption.

216.03A Bond Redemption Premiums Payable to Bondholders



All relevant rules regarding bond redemption premiums will be contained in the related Bond [Indenture](#). The [Borrower](#) is obligated to pay any bond redemption premium. Fannie Mae does not provide credit enhancement for the bond redemption premium.

Not all types of bond redemptions are subject to redemption premiums and the [Servicer](#) must consult the related Bond [Indenture](#) documentation to determine whether a redemption premium is due. As a general rule, only bond redemptions initiated voluntarily or optionally by the [Borrower](#) will potentially have a redemption premium. Mandatory redemptions almost never have a redemption premium. Mandatory redemptions include redemptions paid from condemnation proceeds and insurance proceeds from casualty losses.

1. Variable Rate Bond Redemption

Weekly variable rate bonds may typically be redeemed at any time, or at least on any bond interest payment date, without restriction or redemption premium to the bondholders subject to the terms of the related Bond [Indenture](#).

2. Fixed Rate Bond Redemption

Fixed rate bonds are typically restricted from optional or voluntary redemption by the [Borrower](#) for a specific period following the original bond issuance date, known as a lockout period. A lockout period may approximate 10 years from the initial bond issuance. Following the expiration of the lockout period, any voluntary redemption during the subsequent 3 to 5 year period typically requires the payment of a redemption premium to bondholders.

NOTE: Most transactions require the [Borrower](#) to pay the bond redemption premium with money that is not subject to being treated as a voidable preference under applicable bankruptcy and insolvency laws. This usually means the redemption premium cannot come from regular resources of the [Borrower](#). The Bond [Indenture](#) must be consulted for requirements applicable to sources of payment of the Bond Redemption Premium and legal counsel should be consulted.

216.03B Termination Fee or Prepayment Premium Payable to Fannie Mae

Any [Prepayment Premium](#) payable to Fannie Mae on the credit enhancement is separate and distinct from any redemption premium payable to bondholders. This is true for all executions: [Direct Pay](#), [Standby](#) and [MBS](#).

In most instances, Fannie Mae requires the [Borrower](#) to pay a



Prepayment Premium (or “Termination Fee” if required in the applicable documents) if the prepayment occurs within a certain number of years after original delivery of Fannie Mae’s credit enhancement. In earlier Bond Credit Enhancement transactions, the premium will be called a **Prepayment Premium** and will be addressed in the **Note**. In later transactions, the premium will be called a Termination Fee and will be addressed in the Reimbursement Agreement.

216.03C Termination When No Prepayment Occurs; Weekly Variable Rate Transactions

In DUS Variable Rate Credit Enhancements, there is the possibility that neither the **Mortgage Loan** nor the bonds are actually being prepaid, but only that the **Borrower** is replacing Fannie Mae as the provider of the credit enhancement and liquidity, terminating Fannie Mae’s involvement in the transaction. For purposes of this section, that too is treated as a prepayment. In the event that the **Mortgage Loan** is being prepaid or Fannie Mae is being replaced as credit enhancer, the result is that the credit enhancement is being terminated. In recent years, to take this into account, the general term “Termination” has been used to refer to the events and “Termination Fee” to refer to the fee which may be payable on account of those events.

The **Servicer** must remit any Termination Fee due Fannie Mae in accordance with remittance requirements contained below in this Section by 2:00 p.m. Eastern Time on the next **Business Day** following the day on which the **Borrower**’s termination of Fannie Mae’s credit enhancement and liquidity is effective.

216.04 Prepayments – Processing

216.04A General

The **Note** requires the **Borrower** to give advance notice of a full or partial prepayment to the **Servicer**, the **Bond Trustee**, and, if a DUS Variable Rate Credit Enhancement, the **Remarketing Agent**. Any partial prepayment must be in an amount corresponding to an authorized denomination of the **Bonds**. Typically, Fannie Mae will require its consent to an optional redemption of **Bonds**.

The **Servicer** must always keep in mind that the date on which the **Borrower** must transfer money to the **Servicer** to initiate a prepayment may not be the day that the transfer of funds is treated as a prepayment under the governing documents. For example, under some documents the **Borrower** must make the prepayment not later than the last **Business Day** before the day the **Bond Trustee**, under the Bond



Indenture, must have received funds for redemption of the Bonds. The Mortgage Loan prepayment will not be recognized until the Bonds are actually redeemed or deemed paid and no longer under the requirements of the Bond Indenture.

216.04B Prompt Notice of Intended Prepayment

The Servicer must promptly notify Fannie Mae (Multifamily Asset Management) and the Bond Trustee in writing upon receiving notice from the Borrower of a planned prepayment. If the prepayment does not occur on such date, the Borrower may not subsequently prepay the Mortgage Loan in full without first giving the Servicer and all other parties to whom notice is required, a new notice of intent to prepay in accordance with the Loan Documents.

216.04C Critical Path Due Dates

The Servicer must ensure that the final prepayment amount quoted to the Borrower prior to prepayment is correct. Accordingly, before the Servicer advises the Borrower of the final prepayment amount, the Servicer must verify such amount with the Bond Trustee and Fannie Mae.

1. No less than 10 days prior to the scheduled prepayment date, the Servicer must obtain the Bond Trustee's written confirmation of all amounts due and payable in connection with the prepayment.

2. No less than 10 days prior to the scheduled prepayment date, and after verifying amounts due on the Bonds with the Bond Trustee, the Servicer must request verification of the full or partial prepayment amount from Fannie Mae.

3. No less than 5 days prior to the day the Borrower is required to initiate the prepayment, the Servicer must advise the Borrower in writing of the full amount necessary to make the prepayment.

NOTE: The day the Borrower is required to initiate the prepayment will be before the day the Bonds are to be redeemed.

4. For weekly variable rate bonds, immediately following the last day on which interest is determined on the Bonds before the scheduled redemption date of the bonds, the Servicer must re-verify the amount the Borrower must pay for the prepayment. The Servicer must immediately advise the Borrower of any correction required by the re-verification.



The **Servicer** should note that the transaction documents do not uniformly address the redemption premium, if any, payable to Bondholders and **Prepayment Premium** or termination fee, if any, payable to Fannie Mae on account of a prepayment of the **Mortgage Loan**. In some instances, the fee maintenance **Prepayment Premium** set out in the **Note** will be payable to Fannie Mae. In other instances, the **Prepayment Premium** payable under the **Note** must be remitted to the **Bond Trustee** for payment to bondholders as a redemption premium. In this case, the **Borrower** may be required to pay a Termination Fee to Fannie Mae pursuant to the Reimbursement Agreement. The **Servicer** must be alert to these requirements.

216.04D Fannie Mae's Confirmation Required

To obtain Fannie Mae's confirmation of the prepayment amount, the **Servicer** must submit a statement detailing the following:

1. the Fannie Mae **Mortgage Loan** number(s) and bond number(s), the **Property** name and address and the expected prepayment date;
2. all amounts that it has determined (and for such amounts due the Bondholders, confirmed with the **Bond Trustee**) will be due and payable by the **Borrower** on the prepayment date, including:
 - (a) the full or partial principal prepayment (as of the prepayment date) of the **Note**, separately specifying any amounts in the **PRF** expected to be applied to principal;
 - (b) accrued interest up to but not including the date of prepayment of the **Note**;
 - (c) any unpaid late fees (if applicable);
 - (d) any **Prepayment Premium** or Termination Fee required to be paid to the Bondholders or Fannie Mae, respectively, under the terms of the **Note**, the Financing Agreement, the **Indenture** or the **Bonds**;
 - (e) any termination fee payable to Fannie Mae pursuant to the Reimbursement Agreement;
 - (f) any other amounts due under the **Loan Documents**;and
 - (g) all other amounts due upon a redemption of **Bonds** under the Bond Documents, including any interest required to cover the gap between **Mortgage Loan** and **Bond** prepayment for



which an escrow or collateral is not already provided. (The **Servicer** must request this information from the **Bond Trustee**.)

3. written confirmation from the **Bond Trustee** of all amounts due the Bondholders.
4. all amounts that will be due and payable to Fannie Mae on the day as required by this Section following prepayment, including:
 - (a) **Credit Enhancement Fee** and **Liquidity Fee**;
 - (b) any previously unpaid fees or other amounts owed to Fannie Mae; and
 - (c) any applicable **Prepayment Premium** or **Termination Fee** that is due, broken down into the portions due to the **Servicer** and Fannie Mae.

The **Prepayment Premium** or **Termination Fee** is a percentage (as specified in the **Note** or **Reimbursement Agreement**) multiplied by the **UPB** of the **Mortgage Loan** after crediting the scheduled payment due on the date regular mortgage loan payments are due (in some transactions, the first of the month and in others, the 15th of the month) in which a prepayment takes place.

Fannie Mae's share of the **Prepayment Premium** or **Termination Fee** will be a percentage determined by dividing the sum of the **Credit Facility Fee** and the **Liquidity Fee** by the sum of the **Credit Facility Fee**, **Liquidity Fee** and the **Servicing Fee**.

No **Prepayment Premium** or **Termination Fee** is due in connection with an application of insurance proceeds or condemnation awards, a monthly deposit to the **PRF**, a redemption of **Bonds** from amounts transferred from the **PRF** to a redemption account, a reduction and amortization of the **Mortgage Loan** as a result of a **Bond** redemption, or an adjustment to a **Reset Rate** or a **Fixed Rate**.

For **New Construction/Substantial Rehabilitation Mortgage Loans**, other prepayment criteria may apply depending on the transaction structure.

Fannie Mae is not responsible for confirming any amounts owed to the **Servicer** at the time of the prepayment (e.g., any administrative fees due for services performed by the **Servicer** under a **Collateral Agreement**); however, the **Servicer's** payoff statement should clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae and the **Bond**



Trustee.

Fannie Mae will review the [Servicer's](#) figures and contact the [Servicer](#) to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond to the [Servicer's](#) verification request in writing. In its response, Fannie Mae will confirm the total payoff amount due to the [Servicer](#) from the [Borrower](#), and will also separately confirm the amounts due to Fannie Mae from the [Servicer](#), as well as individual items comprising such total amounts.

It is the [Servicer's](#) responsibility to prepare lien release documentation.

216.05 Prepayments: Prepayment Reporting

The [Servicer](#) must report the prepayment amount, including any applicable [Prepayment Premium](#) or Termination Fee due Fannie Mae and/or any redemption premium due the bondholders, to Fannie Mae in accordance with the reporting requirements contained in [Part V, Chapter 2: Reporting and Remitting, Section 216.01: Monthly Bond Credit Enhancement Reporting](#). The date the report is due depends on the execution type of the underlying transaction.

1. If the [Mortgage Loan](#) payments are due on the first of the month, the report is due on the fourth calendar day of the month in which the prepayment occurs, or the next [Business Day](#) if the fourth is not a [Business Day](#).
2. If the [Mortgage Loan](#) payments are due on the 15th of the month, the report is due on the 15th of the month or the next [Business Day](#) if such day is not a [Business Day](#).

216.06 Prepayments: Remittances

The [Servicer](#) must remit any [Prepayment Premium](#) and/or Termination Fee due Fannie Mae by 2:00 p.m. Eastern Time, on the next [Business Day](#) following the day on which the [Borrower's](#) prepayment is received.

Depending on the execution and transaction type, the [Servicer](#) must also be concerned with invoicing, collecting and remitting the principal amount of the [Mortgage Loan](#) to be prepaid. In all cases, the [Servicer](#) must invoice and collect the principal amount being prepaid from the [Borrower](#). No prepayment of [Direct Pay Facilities](#) will be allowed until Fannie Mae receives the necessary funds from the



Borrower.

Any prepayment of principal on any **Mortgage Loan** received by the **Servicer** shall be paid, as follows:

1. **Standby Execution**: Prepayments shall be remitted to the **Bond Trustee** not later than the **Bond Business Day** immediately after the date of receipt such funds by the **Servicer**; or

2. **Direct Pay Execution**: Prepayments shall be remitted to Fannie Mae on the same day as the Fannie Mae Advance to the **Bond Trustee** funding the corresponding bond redemption associated with the prepayment.

216.07 Reporting on Delinquency Status

The **Servicer** must electronically submit to Fannie Mae using the Multifamily Delinquency Early Warning System (DEWS), or any successor system selected by Fannie Mae to do such reporting, the monthly delinquency status of the **Mortgage Loan** on the 17th calendar day of the month. If the 15th falls on a holiday or weekend, the System is available the next **Business Day**. The **Servicer** must plan around this one day window period for the purpose of reporting delinquencies. This rule applies to all execution and transaction types for DUS Bond Credit Enhancement.

Section 217 Mezzanine Loan Reporting and Remitting

NOTE: Except as otherwise required below, the reporting and remitting requirements for Cash Mortgage Loans provided in this Chapter apply to Mezzanine Loans.

217.01 Remitting DUS Plus Mezzanine Loans

For the DUS Plus Mezzanine Loan, the **Servicer** is required to remit to Fannie Mae via the **Cash Remittance System**. On each remittance date the amount representing P&I (adjusted to the **Pass-Through Rate**) actually collected from the Mezzanine Borrower must be remitted. The initial remittance date for any DUS Plus Mezzanine Loan is the 18th day of the month following the month in which the DUS Plus Mezzanine Loan is purchased, with monthly remittances due on the 18th day of each month thereafter.

For each DUS Plus Mezzanine Loan, the principal distribution amount remitted must include the sum of:



- the principal portion actually collected from the Mezzanine Borrower of the monthly installment due during the period beginning on the second day of the month preceding the month in which a remittance date occurs and ending on the first day of the month in which a remittance date occurs; and
- any unscheduled principal recovery collected on a DUS Plus Mezzanine Loan during the month preceding the month in which a remittance date occurs.

The interest distribution amount remitted includes the interest portion of the monthly installment (that portion actually collected from the Mezzanine Borrower), adjusted to the [Pass-Through Rate](#), due on the first day of the month in which a remittance date occurs or due at any time (other than the first day) during the preceding month.

The [Servicer](#) must remit funds collected from the Mezzanine Borrower even if they do not represent a full payment. The [Servicer](#) may not deduct monthly [Servicing Fees](#) until the entire monthly payment has been collected from the Mezzanine Borrower.

The [Servicer](#) is not required to remit to Fannie Mae on the remittance date any amounts representing [P&I](#) that have not been received from the Mezzanine Borrower and are, therefore, delinquent. Any delinquent payment received after the 18th calendar day of the month in which it is due must be remitted to Fannie Mae by 1:00 p.m. ET within 24 hours of its receipt.

217.02 Payoffs

For DUS Plus Mezzanine Loans, proceeds for payments-in-full, including any applicable repayment fees, must be remitted directly to the mezzanine investor within 24 hours after receipt by the [DUS Servicer](#). The full payment must be reported to Fannie Mae by the second [Business Day](#) of the month following the month in which the prepayment is received in accordance with Part V of this [Guide](#).

Section 218 Defeasance

218.01 Mortgage Loan Documents Must Permit Defeasance

A [Borrower](#) may elect to defease its [Mortgage Loan](#) only if the [Loan Documents](#) permit defeasance. If the [Borrower's Mortgage Loan](#)



Documents do not permit defeasance, defeasance of the Mortgage Loan is not permitted.

218.02 Borrower's Election to Defeasance

Prior to the Mortgage Loan's Maturity Date and during the Mortgage Loan's Defeasance Period, the Borrower may defease the entire outstanding balance of the Mortgage Loan in accordance with the applicable terms and conditions of the Borrower's Loan Documents and the provisions of this Section.

218.03 Defeasance Option Procedures

To accomplish the defeasance, the following procedures must be followed:

218.03A Defeasance Documents

Servicer must obtain the most current Defeasance documents from the Fannie Mae website. The Defeasance documents consist of the Defeasance Notice (Form 4622) and other closing documents required by Fannie Mae in order for the defeasance to occur.

218.03B Defeasance Notice

The Servicer must complete the Defeasance Notice (Form 4622) after verifying the Mortgage Loan is eligible for defeasance and obtaining from the Borrower the date on which the Borrower desires to consummate the Defeasance. The Defeasance Close Date may not be more than 45 calendar days nor less than 30 calendar days after the date on which the Defeasance Notice is received by the Servicer. The Servicer must use the Defeasance Calculator application on the Fannie Mae web site to estimate the Defeasance Deposit and the estimated Defeasance Deposit must be inserted in the appropriate box in the Defeasance Notice. The information on the Defeasance Notice will not be final until it is confirmed by Fannie Mae. Until then, the Defeasance Deposit and other information are estimates. The Defeasance Notice will specify (a) whether a Fannie Mae debt instrument will be offered for use as the substitute collateral and, if not, that U.S. Treasury Securities will be the substitute collateral; and (b) whether the successor entity will be designated by Fannie Mae or Borrower, and (c) the amount of the Defeasance Commitment Fee.

To be effective, the Borrower must execute and send the



Defeasance Notice to the **Servicer** so that the **Servicer** receives the Defeasance Notice no earlier than 11:00 a.m. and no later than 3:00 p.m. ET on a **Business Day**.

The **Servicer** must then sign and execute the Defeasance Notice and fax the Defeasance Notice and a copy of the **Note** to be defeased to its **Fannie Mae Representative**.

Fannie Mae must receive the fax by 5:00 p.m. ET on the same day that the **Defeasance Deposit** was calculated for verification by Fannie Mae.

218.03C Defeasance Commitment Fee

A Defeasance Commitment Fee equal to 1% of the scheduled balance of the **Mortgage Loan** as of the Defeasance Close Date, must be paid by the **Borrower** to the **Servicer** no later than the date and time when the **Servicer** receives the executed Defeasance Notice from the **Borrower**. The **Servicer** must wire the Defeasance Commitment Fee to Fannie Mae within 24 hours after receipt of the **Borrower's** executed Defeasance Notice.

218.03D Verification of the Defeasance Notice

Fannie Mae will verify the **Mortgage Loan** information contained in the Defeasance Notice as well as the **Mortgage Loan's** eligibility for defeasance. After verification and within two (2) **Business Days** after the initial receipt of the Defeasance Notice from the **Servicer**, Fannie Mae will sign the Defeasance Notice and fax it back to the **Servicer** along with an Exhibit that details the monthly cash flows of the Fannie Mae debt instrument that will replace the **Property** as collateral for the **Mortgage Loan**.

The **Servicer** will then fax the verified Defeasance Notice to the **Borrower** on the same day that the **Servicer** receives the verified Defeasance Notice from Fannie Mae. In the event that Fannie Mae made changes to the Defeasance Notice, the **Borrower** must initial the changed portions of the Defeasance Notice and fax it back to the **Servicer** on that same day. The **Servicer** must then immediately fax the **Borrower**-initialed Defeasance Notice to Fannie Mae.

If the **Servicer** does not

- receive the Defeasance Commitment Fee, and
- provide confirmation of the Defeasance Notice to the **Borrower**,



then the **Borrower's** right to obtain **Defeasance** pursuant to that **Defeasance Notice** shall terminate. If the **Borrower** still wishes to defease the **Mortgage Loan**, the **Borrower** must submit a new **Defeasance Notice** and repeat the process outlined above.

218.03E Substitute Collateral

On or before the **Defeasance Close Date**, the **Borrower** must deliver to the **Servicer** a **Defeasance Pledge Agreement (Form 4529)**, creating a perfected security interest in the substitute collateral in favor of Fannie Mae.

218.03F Assignment and Assumption

The **Borrower** must assign all its obligations and rights under the **Note**, together with the substitute collateral, to a successor entity designated by Fannie Mae or, if not so designated by Fannie Mae, designated by **Borrower** and acceptable to Fannie Mae. The **Borrower** and the successor entity shall execute and deliver to the **Servicer** a **Defeasance Assignment and Assumption Agreement (Form 4528)**.

218.03G Closing Documents

The **Servicer** must deliver to Fannie Mae by no later than 10 a.m. ET, five (5) **Business Days** before the **Defeasance Close Date**, the following documents:

- a **Borrower's Counsel Opinion Letter (Form 6618)** affirming:
 - that each **Defeasance Document** constitutes the valid and legally binding obligation of the **Borrower**, enforceable against the **Borrower** in accordance with its terms;
 - that the defeasance is not subject to avoidance under any applicable federal or state laws;
 - that, if the **Note** is held by a REMIC Trust, then the defeasance has been effected in such a way that does not adversely affect the REMIC Trust; and
 - such other opinions, certificates, documents or instruments as **Servicer** may reasonably request;
- the **Defeasance Assignment and Assumption Agreement (Form 4528)**; and



- the Defeasance Pledge Agreement (Form 4529).

Transmittal of these documents shall be accompanied by a completed Multifamily Defeasance Transmittal Form (Form 4631).

218.03H Amounts Payable by Borrower

On or before the Defeasance Close Date, the Borrower must pay to the Servicer an amount equal to the sum of:

- the next scheduled P&I payment due under the Note;
- all other sums then due and payable under the Note, the Security Instrument and any other Loan Document; and
- all costs and expenses incurred by the Servicer in connection with the defeasance, including any out-of-pocket fees and disbursements of the Servicer's legal counsel.

218.03I Defeasance Deposit

If a Fannie Mae investment security will be the substitute collateral, then, on or before 3:00 p.m. ET on the Defeasance Close Date, the Borrower must pay the Defeasance Deposit (reduced by the Defeasance Commitment Fee) to the Servicer to be used by the Servicer, as the Borrower's agent, to purchase the Fannie Mae Investment Security.

The Borrower or Closing Agent must wire the Defeasance Deposit to Servicer by 3:00 p.m. ET on the Defeasance Closing Date. The Servicer must wire the Defeasance Deposit (reduced by the Defeasance Commitment Fee) to Fannie Mae for receipt by 5:00 p.m. ET on the Defeasance Closing Date.

218.03J Release

Upon the Borrower's compliance with the Defeasance requirements, the Property will be released from the lien of the Security Instrument. Upon release of the Property, the Note will be secured by the pledge of the Substitute Collateral.

218.03K Fannie Mae Security Liquidated Damages

If the Borrower timely pays the Defeasance Commitment Fee



and the **Servicer** and the **Borrower** timely transmit a signed facsimile copy of the Defeasance Notice, but the **Borrower** fails to consummate the defeasance, Fannie Mae shall have the right to retain the Defeasance Commitment Fee as liquidated damages for the **Borrower's** default and, subject to the terms and conditions of the **Note**, the **Borrower** shall be released from all further obligation to defease the **Note** under the given Defeasance Notice.

218.03L Third-Party Costs

In the event that the **Defeasance** is not consummated on the Defeasance Closing Date for any reason, the **Borrower** must reimburse the **Servicer** for all third-party costs and expenses incurred by the **Servicer** in its reliance on the Defeasance Notice executed by the **Borrower**, within five (5) **Business Days** after the **Borrower** receives a written demand for this reimbursement.

218.03M Post Defeasance Closing Date

Fannie Mae will transfer the defeased **Mortgage Loan** from the **Servicer's** servicing portfolio effective on the first day of the second month following the Defeasance Closing Date. The **Servicer** will be required to report and remit payments for the next scheduled **P&I** payment collected as part of the Defeasance Closing. Thereafter, the **Servicer** will no longer be required to perform other servicing requirements for the defeased **Mortgage Loan**. Beginning on the 18th calendar day of the second calendar month after the Defeasance Closing Date (or the next **Business Day** if such day is not a **Business Day**) until the maturity of the **Mortgage Loan**, the **Servicer** will receive the remaining scheduled servicing fee for the **Mortgage Loan** minus five (5) basis points provided the Authorization for ACH Remittance (**Form 4630**) has been submitted.

Section 219 Delinquency Reporting and Certification

On the 17th calendar day of each month, **Servicers** must take the following actions with respect to **Mortgage Loans**:

- Report all delinquent **Mortgage Loans** to Fannie Mae using the Delinquency Early Warning System (“DEWS”), which **Servicers** may access through the eServicing System. Delinquency reporting must include delinquencies for **Mortgage Loans** on Bond Credit Enhancements, even if the **Servicer** also elects to report these delinquencies through



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- Certify as to the delinquency status of all Mortgage Loans. If a Servicer's Mortgage Loan portfolio does not include any delinquent Mortgage Loans, the Servicer must certify to that effect.

Prior to the 17th calendar day of each month, Servicers may use the "Preliminary" Case Status indicator to set up initial delinquency cases in DEWS.

On the 17th calendar day of each month, Servicers must change all "Preliminary" Case Status indicators to "Open" for all Mortgage Loans still delinquent or delete remaining initial cases for all Mortgage Loans that have cured. No "Preliminary" Case Status cases can remain as of the 17th calendar day of each month.

If the 17th calendar day of a month falls on a weekend or holiday, the Servicer must report and certify on the next Business Day.

Servicers must complete the "comments section" in each report with important additional information regarding the delinquent Mortgage Loan including, at a minimum, the following:

- the Servicer's attempts to contact the delinquent Borrower;
- the cause for the missed payment(s);
- whether payment is expected before the end of the month;
- the likelihood of the Borrower making the next month's payment;
- if the payment will not be made before the end of the month of default, whether the Borrower will voluntarily turn over the monthly net operating income of the Property;
- the willingness of the Borrower to work with the Servicer to resolve the delinquency; and
- whether the Mortgage Loan is being Special Serviced by Fannie Mae's Special Asset Management (SAM) group (Primary Risk Mortgage Loans) or the Servicers' Special Servicing group (Secondary Risk Mortgage Loans).

Servicers must update at least once per week all delinquency reports with an "Open" status indicator.

Section 220

Reporting Collateral Balances in Custodial Accounts



Servicers must report, on a quarterly basis, the balances of **Mortgage Loan** collateral held by **Servicers** in their **Custodial Accounts** using **Collateral Submission Report (Form 4813)**. **Collateral** balances that must be included in the quarterly reporting include balances for all **Custodial Accounts** whether the collateral is held as cash, securities or letters of credit.

220.01 P&I Custodial Accounts

Except as noted in **Part V, Chapter 2: Reporting and Remitting, Section 220.04: What to Report**, balances in **P&I Custodial Accounts** are excluded from this reporting requirement.

220.02 Letters of Credit as Collateral

Balances for any original **Letters of Credit** held by the **Servicer** must be reported. Balances for any original **Letter of Credit** held by **Fannie Mae** are not required to be reported.

220.03 Report on Fair Value Basis

If the form of collateral is securities or **Letters of Credit**, **Servicers** must report the balances on a fair value basis (the price that would be received to sell an asset in a transaction between market participants).

220.04 What to Report

Collateral that must be reported using the **Collateral Submission Report (Form 4813)** includes:

- **Short Term**
 - any **Replacement Reserves** or repair escrows;
 - insurance proceeds held pending repair or damage to the **Property**; or
 - condemnation proceeds received in a condemnation action related to the **Property**.
- **Long Term**
 - any operating deficit or debt service reserve; or
 - **NCF** sweeps – to the extent **NCF** exceeds monthly **P&I**



remitted to Fannie Mae in the ordinary course.

- Balances in any T&I Custodial Account.
- Other
 - any other escrow, collateral or achievement funds governed by an agreement with the Borrower;
 - any holdback of Mortgage Loan proceeds; or
 - any tenant security deposits held by the Servicer.

220.05 When to Report

The Collateral Submission Report (Form 4813) must be submitted to Servicer's Fannie Mae Representative within thirty (30) days after the end of each calendar quarter.

Section 221 Internal Revenue Service Reporting Requirements

221.01 What to Report

The Servicer must comply with Internal Revenue Service reporting requirements for:

- reporting the receipt of \$600 or more of interest payments from any Borrower who is a natural person (IRS Form 1098);
- filing Statements for Recipients of Miscellaneous Income (IRS Form 1099-MISC) to report payments of fees and related expenses to attorneys and other third parties in connection with foreclosure or liquidation proceedings in connection with a Mortgage Loan and the related Property;
- filing notices of Acquisition or Abandonment of Secured Property (IRS Form 1099-A) to report the acquisition of a Property by foreclosure or acceptance of a deed-in-lieu or by a Borrower's abandonment of a property; and
- filing notices of Cancellation of Debt (IRS Form 1099-C) to report the cancellation of any part of a Borrower's indebtedness.

Should the Internal Revenue Service change the reporting



requirements in connection with any of IRS Form 1098, IRS Form 1099-MISC, IRS Form 1099-A or IRS Form 1099-C, the **Servicer** must comply with those changed reporting requirements, notwithstanding anything to the contrary contained in this Chapter. The **Servicer** should contact Fannie Mae if it believes any portion of this Chapter to be in conflict with such Internal Revenue Service reporting requirements.

221.02 Filing IRS Form 1099 MISC

The **Servicer** must report all attorney (or trustee) fees paid by the **Servicer** to **Servicer**-retained attorneys or trustees or to Fannie Mae-retained attorneys or trustees for handling foreclosure proceedings, by filing Form 1099-MISC (Miscellaneous Income) with the Internal Revenue Service and other parties. This form must be filed in the **Servicer's** name, using its Internal Revenue Service tax identification number.

If the **Servicer** pays for any expenses authorized by Fannie Mae for the maintenance, repair, or marketing of an **REO Property**, or when the **Servicer** pays directly any business that is not a corporation for recurring maintenance costs, minor repair costs, or routine costs in connection with an **REO Property**, the **Servicer** must report such payments to the Internal Revenue Service. To accomplish this, the **Servicer** must prepare an IRS Form 1099-MISC (Miscellaneous Income) for the appropriate tax year and submit it to the Internal Revenue Service and to the individual payee. This form must be filed in the **Servicer's** name, using its Internal Revenue Service taxpayer identification number.

221.03 Notifying the Internal Revenue Service about Abandonments or Acquisitions (IRS Form 1099-A)

221.03A When Required

The Internal Revenue Service requires that information returns be filed when Fannie Mae (or a third party) acquires an interest in a **Property** in full or partial satisfaction of the **Mortgage Loan** or when Fannie Mae or the **Servicer** has reason to know that a **Property** has been abandoned. The **Servicer** must file these notices on Fannie Mae's behalf, using IRS Form 1099-A (Acquisition or Abandonment of Secured Property), for all applicable **Mortgage Loans** (including **Mortgage Loan** participations if Fannie Mae's percentage ownership of such **Mortgage Loan** is 50% or greater).



The **Servicer** must satisfy the reporting requirements for the “owner of record” (instead of on Fannie Mae's behalf) when the **Servicer** purchased a delinquent **Mortgage Loan** from Fannie Mae before the **Property** was acquired by the **Servicer** in full or partial satisfaction of the **Mortgage Loan**.

For purposes of filing these reports:

- Fannie Mae (or the “owner of record”) acquires an interest in the **Property** when any redemption period that follows a foreclosure sale ends without redemption rights being exercised (or when Fannie Mae accepts a deed-in-lieu of foreclosure);
- A third party acquires an interest in the **Property** at the foreclosure sale; and
- Abandonment occurs when Fannie Mae or the **Servicer** has “reason to know” from “all facts and circumstances concerning the status of the **Property**” that the **Borrower** intended to discard or has permanently discarded the **Property** from use. The **Servicer**, however, will have an additional three months before its reporting obligation arises if the **Servicer** expects foreclosure proceedings to begin within the three months after determination that abandonment has occurred.

After an event that triggers a reporting requirement occurs, IRS Form 1099-A must be filed on or before February 28 (or March 31 if filing electronically) of the year following the calendar year in which the event occurred. The **Servicer** also must furnish the **Borrower** with an information statement on or before January 31 of that year. The requirement for notifying the **Borrower** can be satisfied by sending Copy B of a completed IRS Form 1099-A to the **Borrower's** last known address. When the form is filed on Fannie Mae's behalf, it must show Fannie Mae's name, address, and federal identification number (52-0883107), and include a legend stating that the information is being reported to the Internal Revenue Service. If it is filed by the **Servicer** on its own behalf or for the “owner of record,” the name, address, and identification number of the **Servicer** or owner of record, respectively, must be provided instead.

221.03B Preparing IRS Form 1099-A

The **Servicer** is responsible for completing the IRS Form 1099-



A accurately, for filing it with the Internal Revenue Service, and for providing the information to the [Borrower](#) and to Fannie Mae by the required dates. If the Internal Revenue Service penalizes Fannie Mae because a [Servicer](#) failed to file a return or filed an incorrect return or late return, Fannie Mae will require the [Servicer](#) to reimburse Fannie Mae for any penalty fees the Internal Revenue Service assesses (unless the [Servicer](#) can document that it met the filing requirements).

Information that must be reported on IRS Form 1099-A includes:

- the [Borrower's](#) taxpayer identification number (the Social Security number if the borrower is a natural person);
- the date of acquisition of an interest in the [Property](#) or the date the [Servicer](#) acquired knowledge of the abandonment;
- the outstanding [UPB](#) of the [Mortgage Loan](#);
- a general description of the [Property](#); and
- whether the [Borrower](#) is personally liable for the debt and, if personally liable, the fair market value of the [Property](#) at the time of acquisition.

221.04 Notifying the Internal Revenue Service about Cancellations of Indebtedness (IRS Form 1099-C)

221.04A When Required

The Internal Revenue Service requires certain mortgage holders, including Fannie Mae, to file information returns when \$600 or more of a [Mortgage Loan](#) is cancelled. Except as provided in [Part V, Chapter 2: Reporting and Remitting, Section 221.04D: Exceptions to IRS Form 1099-C Reporting](#), the [Servicer](#) must file these returns on Fannie Mae's behalf, using IRS Form 1099-C, for all applicable [Mortgage Loans](#) (including [Mortgage Loan](#) participations if Fannie Mae's percentage ownership of such [Mortgage Loan](#) is 50% or greater). If, in the same calendar year, a [Mortgage Loan](#) is canceled in connection with a foreclosure or abandonment of secured property, it is not necessary to file both Form 1099-A and Form 1099-C for the same [Borrower](#). Only Form 1099-C need be filed, and the Form 1099-A filing requirement for the [Borrower](#) will be met by completing boxes 4, 5, and 7 on Form 1099-C.

221.04B Determining When a Debt Is Cancelled



A debt is cancelled (in whole or part) when any of the following occur:

- discharge in bankruptcy under Title 11 of the U.S. Code;
- receivership, foreclosure, or similar federal or state court proceeding makes the debt unenforceable;
- the statute of limitations applicable to collecting the debt expires (if so determined by a court and any appeal period has expired), or expiration of the statutory period for filing a claim or beginning a deficiency judgment proceeding;
- foreclosure remedies by law end or bar Fannie Mae's right to collect the debt (e.g., foreclosure by exercise of the "power of sale" in the [Security Instrument](#));
- probate or similar proceeding cancels or extinguishes the debt;
- Fannie Mae and the [Borrower](#) agree to cancel the debt at less than full consideration;
- a decision or defined policy of Fannie Mae causes collection activity to be discontinued and the debt to be cancelled; or
- expiration of a "non-payment testing period".

The Internal Revenue Service presumes that a debt is cancelled during a calendar year if no payment has been received on the [Mortgage Loan](#) during a period (the "non-payment testing period") of 36 months, plus the number of calendar months when collection activity was precluded by a stay in bankruptcy or similar bar under state or local law. The presumption may be rebutted, however, if there has been significant, bona fide collection activity at any time during the calendar year, or if facts and circumstances, existing as of January 31 of the calendar year following expiration of the 36-month period, indicate that the indebtedness has not been discharged.

221.04C Preparing IRS Form 1099-C

The [Servicer](#) is responsible for completing the Cancellation of Debt (IRS Form 1099-C) accurately, and for filing it with the Internal Revenue Service and providing the information to the [Borrower](#) and to Fannie Mae by the required dates. The form must be filed on or before February 28 (or March 31 if filing electronically) of the year following the



calendar year in which the discharge of indebtedness occurs.

If the Internal Revenue Service penalizes Fannie Mae because the **Servicer** failed to file a return or filed an incorrect or late return, Fannie Mae will require the **Servicer** to reimburse Fannie Mae for any penalty fees the Internal Revenue Service assesses (unless the **Servicer** can document that it met the filing requirements).

The **Servicer** also must furnish the **Borrower** with an information statement before January 31 of that year. The requirement for notifying the **Borrower** can be satisfied by sending Copy B of a completed IRS Form 1099-C (or a substitute statement that complies with Internal Revenue Service requirements for substitute forms) to the **Borrower's** last known address, and the **Servicer** must send Copy C to those states that require it. When the form is filed on Fannie Mae's behalf, it must show Fannie Mae's name as the "Creditor," Fannie Mae's address and federal identification number (52-0883107), and include a legend identifying the statement as important tax information that is being furnished to the Internal Revenue Service.

Information that must be reported on IRS Form 1099-C includes:

- the **Borrower's** name, address, and taxpayer identification number (the Social Security number if the borrower is a natural person);
- the date the debt was cancelled;
- the amount of the cancelled debt, which does not include interest or any amount received in satisfaction of the debt from a foreclosure sale or other means;
- a description of the debt, such as "mortgage loan," and a description of the **Property** if a combined IRS Form 1099-C and 1099-A is filed;
- whether the **Borrower** is personally liable for the debt;
- whether the debt was cancelled in bankruptcy; and
- the fair market value of the **Property** if a combined IRS Form 1099-C and 1099-A is filed.

If the cancelled **Mortgage Loan** had an original principal amount of \$10,000 or more, was originated after 1994, and involves **Borrowers** who are jointly and severally liable for the debt, a separate information return for each **Borrower** must be filed, and each return



must report the entire amount of the cancelled debt. If the [Mortgage Loan](#) was originated prior to January 1, 1995, or if the original principal amount of the cancelled [Mortgage Loan](#) was less than \$10,000, and if there are multiple [Borrowers](#), reporting is required only with respect to the primary (or first-named) [Borrower](#). In addition, only one information return is required, regardless of the origination date or the original principal amount, if the [Servicer](#) knows, or has reason to know, that co-Borrowers were husband and wife living at the same address when the [Mortgage Loan](#) was originated, and does not know or have reason to know that such circumstances have changed when the [Mortgage Loan](#) is cancelled.

221.04D Exceptions to IRS Form 1099-C Reporting

Interest. Interest need not be reported. If it is reported as part of the cancelled debt, the IRS Form 1099-C instructions require that it be shown in a separate box on the form.

Non-principal amounts. Cancellation of amounts other than stated principal, including penalties, fines, fees, and administrative costs charged to the [Borrower](#), need not be reported.

Release of a co-Borrower. IRS Form 1099-C need not be filed when one [Borrower](#) is released from a [Mortgage Loan](#) as long as the remaining [Borrowers](#) are liable for the full UPB of the [Mortgage Loan](#).

Guarantor or surety. A guarantor or surety (i.e., any [Guarantor](#) or [Key Principal](#) executing a [Non-Recourse Guaranty](#) or a [Payment Guaranty](#)) is not a [Borrower](#) for purposes of the debt cancellation reporting requirements, so IRS Form 1099-C is never required.

221.04E Coordination with Reporting Abandonments or Acquisitions

If, in the same calendar year, the [Mortgage Loan](#) is cancelled in connection with the acquisition or abandonment of the same [Property](#) securing the [Mortgage Loan](#), filing a timely and accurate IRS Form 1099-C will satisfy the requirement to file an IRS Form 1099-A.

221.05 Reporting via Magnetic Media

The [Servicer](#) must report IRS Forms 1099-C and 1099-A information on magnetic media and must do so on Fannie Mae's behalf. Even though the [Servicer](#) reports to the Internal Revenue Service on



magnetic media, it is still responsible for providing a hard copy of the IRS Forms 1099-C or 1099-A, as applicable, to the **Borrower** (Copy B) and to those states that require it (Copy C). Copy B must be sent to the **Borrower** no later than January 31.

The **Servicer** must review each **Borrower's** Form W-9 for validity and request a new Form W-9 if any form is invalid. A valid W-9 will include the **Borrower's** name, tax identification number, date, and signature. In preparing Forms 1099-C or 1099-A, the **Servicer** must (i) utilize the IRS TIN Matching program and perform tax identification number matching for all United States non-exempt **Borrowers** in all circumstances, (ii) notify Fannie Mae of any **Borrower** that is identified as an unsuccessful TIN Match prior to preparing Form 1099, and (iii) follow up with any **Borrower** whose name and tax identification number combination fail the IRS TIN Match. The **Servicer** should also provide to Fannie Mae its TCC (Transmittal Control Code) at the beginning of each year, which will allow Fannie Mae to communicate to the **Servicer** any errors on its 1099 filings.

The **Servicer** does not need to send Fannie Mae a copy of the magnetic media filed by the **Servicer** with the Internal Revenue Service. However, to ensure that Fannie Mae can identify the **Servicer** and the loan number for a specific **Mortgage Loan** should the Internal Revenue Service contact Fannie Mae for additional information or clarification, the **Servicer** must:

- insert the following header information when the IRS Form 1099-C or 1099-A, as applicable, is filed on Fannie Mae's behalf:
 - Fannie Mae on the first "Payer" line; and
 - the Fannie Mae loan number for the related **Mortgage Loan** on the line for the "Payer's account number for Payee"; and
- within thirty (30) days after filing with the Internal Revenue Service, send an email to Fannie Mae at multifamily_1099_reporting@fanniemae.com, containing a summary of IRS Forms 1099-C or 1099-A, as applicable, to notify Fannie Mae what the **Servicer** reported to the Internal Revenue Service on magnetic media.



Chapter 3

Custodial Account Requirements

Section 301

Custodial Accounts

301.01 General

The Servicer must establish and maintain Custodial Accounts to deposit funds collected in connection with Mortgage Loans in accordance with the requirements of the Loan Documents, and must maintain strict control of all such funds in its custody. All Custodial Accounts and related records must be maintained in accordance with sound accounting and cash management practices, and in such a manner as will permit representatives of Fannie Mae, at any time, to examine and audit such accounts and records. The requirements for Custodial Accounts apply to the establishment and maintenance of all Custodial Accounts, including P&I Custodial Accounts, T&I Custodial Accounts, Collateral Agreement Custodial Accounts, and Drafting Accounts. Separate requirements apply for a Clearing Account used by the Servicer as a Custodial Account.

301.02 Custodial Account Types, Investments, and Depositories

301.02A Custodial Account Requirements and Investments

All Custodial Accounts must be either demand deposit accounts or money market accounts established and maintained at an Eligible Depository.

Other than the earnings typically derived from a demand deposit account or money market account (e.g., interest), funds in Custodial Accounts are not permitted to be invested.

301.02B Eligible Depositories

If the Servicer is a depository institution, it can establish the account within its own institution so long as:

- it meets Fannie Mae's criteria for an Eligible Depository; and
- does not use its general ledger or internal operating account for the Custodial Accounts.



If the Servicer does not comply with the above requirements, it must establish the account in an Eligible Depository.

301.02C Verifying Depository Ratings

When determining the eligibility of a depository institution, the Servicer must use the most recent financial ratings issued within the past 3 months, and must confirm these ratings every 3 months thereafter. If the Servicer learns that a depository institution or its holding company no longer satisfies the rating requirement for an Eligible Depository, the Custodial Account must be transferred to an Eligible Depository within 30 days.

301.02D Fannie Mae's Rights in Custodial Accounts

The Loan Documents grant to Fannie Mae a security interest in all Custodial Accounts associated with a Mortgage Loan. In exercising its rights under the Loan Documents, Fannie Mae, in its sole discretion, reserves the right to require the Servicer at any time to:

- transfer funds out of an institution (even if it is an Eligible Depository) to a Custodial Account in another Eligible Depository;
- move funds to a trust account;
- ensure the funds in a Custodial Account are fully insured by the FDIC or NCUSIF or other governmental insurer or guarantor as may be acceptable to Fannie Mae; and/or
- remit more frequently to Fannie Mae while allowing funds to remain in the existing Custodial Account.

Specific actions may vary depending on the size of the accounts, the risks involved, and other factors as determined by Fannie Mae.

301.03 Required Custodial Accounts

Subject to Custodial Account co-mingling constraints set forth in this Chapter, for all Mortgage Loans, the Servicer must establish and maintain:

- one or more P&I Custodial Accounts for Cash Mortgage



Loans and Pooled from Portfolio (“PFP”) Mortgage Loans;

- one or more P&I Custodial Accounts for Securitized Mortgage Loans, but excluding PFP Mortgage Loans;
- either:
 - a T&I Custodial Account for the deposit of T&I escrow funds for all Cash Mortgage Loans and Securitized Mortgage Loans; or
 - multiple T&I Custodial Accounts for Cash Mortgage Loans and multiple T&I Custodial Accounts for Securitized Mortgage Loans; and
- Custodial Accounts for the deposit of funds for which the Borrower is required to make deposits to the Servicer pursuant to a Collateral Agreement.

301.04 Servicer Liability

301.04A Responsibility of Servicer

The Servicer is responsible for the safekeeping at all times of the deposits held in Custodial Accounts. The Servicer must establish appropriate methods for monitoring the financial viability of the depositories that hold custodial funds.

301.04B Servicer Liable for Losses

Fannie Mae will hold the Servicer liable for all losses of funds deposited in Custodial Accounts, including any damages Fannie Mae suffers because of delays in obtaining such funds, regardless of whether the Servicer has complied with the requirements of the Guide.

301.04C No Reimbursement for Losses

Any losses incurred by the Servicer will not be reimbursed by Fannie Mae nor permitted to be applied by the Lender in the calculation of any Mortgage Loan loss claim.

301.04D Overdrafts Not Permitted

A Custodial Account must not be overdrawn at any time. If an



overdraft occurs, the **Servicer** must immediately advance the **Servicer's** own funds to cure the overdraft.

Section 302 Establishment of Custodial Accounts

302.01 Notification Requirements

302.01A Establishment of a Custodial Account

Whenever the **Servicer** establishes a **Custodial Account**, the **Servicer** and the depository institution maintaining such account must execute the following forms, as applicable:

- a Letter of Authorization for Multifamily P&I Custodial Account (**Form 2050**);
- a Letter of Authorization for Multifamily T&I Custodial Account (**Form 2052**); or
- a Letter of Authorization for Multifamily Collateral Agreement Custodial Account (**Form 2051**).

The executed form should be sent to:

Fannie Mae

ATTN: Multifamily Lender Oversight

1100 15th Street, NW

Washington, DC 20005.

302.01B Changes to a Custodial Account

The **Servicer** and the depository institution must execute and forward the appropriate **Form 2050**, **Form 2051**, or **Form 2052** to Fannie Mae, within 30 days after the event, if it:

- changes the **Eligible Depository** for any **Custodial Account** (note that the **Servicer** must provide Fannie Mae with a new Letter of Authorization for any **Custodial Account** moved to a different **Eligible Depository**); or
- changes account information on an existing **Custodial**



Account:

302.01C Termination of a Custodial Account

The Servicer must execute and forward the appropriate Form 2050, Form 2051, or Form 2052 to Fannie Mae, within 30 days after it closes or ceases to use any Custodial Account for which an executed Letter of Authorization is on file with Fannie Mae.

302.02 Titling of Custodial Accounts

The Servicer must send Fannie Mae the account title of each Custodial Account at the time the Custodial Account is established or changed. A copy of a signature card, bank statement, or system generated screen print must be submitted with the appropriate Letter of Authorization (see Part V, Chapter 3: Custodial Account Requirements, Section 302.01A: Establishment of a Custodial Account). Custodial Accounts must be titled as follows:

Custodial Account Type	Required Title
P&I Accounts	[Name of Servicer], as agent, trustee, and/or bailee for Fannie Mae and/or payments of various mortgagors and/or various owners of interests in mortgage-backed securities (Custodial Account)
T&I Accounts	[Name of Servicer], as agent, trustee, and/or bailee for Fannie Mae and/or payments of various mortgagors and/or various owners of interests in mortgage-backed securities (Custodial Account)
Collateral Agreement Accounts	[Name of Servicer], as agent, trustee, and/or bailee for Fannie Mae and/or payments of various mortgagors and/or various owners of interests in mortgage-backed securities (Custodial Account)

302.03 Daily Cutoff

The Servicer must establish a reasonable daily cutoff of its work to ensure that collections are credited to the appropriate Custodial Account no later than the Business Day following receipt of such



collections.

Section 303

P&I Custodial Accounts

303.01 Purpose of P&I Custodial Accounts

P&I Custodial Accounts are for the deposit of all Borrower payments of P&I due and owing on a Mortgage Loan, including any unscheduled payments of principal, interest, or the recovery of any Delinquency Advances made by the Servicer. The Servicer must deposit any funds received for such purpose in a P&I Custodial Account as soon as practicable, but no later than the second Business Day (including any time during which funds are in a Clearing Account or general ledger account) after receipt by Servicer.

303.02 P&I Commingling Restrictions

303.02A Maintain Multiple P&I Custodial Accounts

The Servicer is required to maintain multiple P&I Custodial Accounts, at least one for each of the following products or executions, for which the Servicer makes P&I collections:

- Cash Mortgage Loans, including:
 - Cash Mortgage Loans originated under the Guide, the DUS Guide, or the NT Guide; or
 - PFP Mortgage Loans originated under the Guide, the DUS Guide, or the NT Guide;
- MBS Mortgage Loans (including MBS Mortgage Loans originated under the Guide, the DUS Guide, or the NT Guide, but excluding Prior Approval Loans);
- Prior Approval Loans;
- Muni Mae Loans;
- Credit Enhancement Mortgage Loans or transactions involving Credit Enhancement Instruments;
- Real Estate Mortgage Investment Conduit (“REMIC”) transactions originated under the NT Guide; and
- other Securitized Mortgage Loans.



303.02B No Commingling Permitted

The Servicer must deposit all P&I collections for Mortgage Loans into the P&I Custodial Accounts specifically established for each product or execution type as described in this Section, and may not commingle funds for any other product or execution, except as permitted above. For example, P&I funds for Cash Mortgage Loans may not be commingled with P&I funds for MBS Mortgage Loans, but Cash Mortgage Loans originated under the Guide may be commingled with P&I funds for Cash Mortgage Loans originated under the NT Guide.

303.03 Withdrawals from P&I Custodial Accounts

The Servicer may withdraw funds from the P&I Custodial Account only for the following purposes:

- to remit funds to Fannie Mae;
- to reimburse the Servicer for a Delinquency Advance that is recovered from subsequent collections from or on behalf of the Borrower for the Mortgage Loan for which the Delinquency Advance was made;
- to remove funds that were deposited to the account in error;
- to transfer interest or other investment earnings applicable to demand deposit accounts or money market accounts;
- to pay the Guaranty Fee (unless the Servicer has received notice that an event of default by the guarantor of any Security Trust Indenture has occurred);
- to remove fees, charges, or other such amounts that are deposited on a temporary basis in the account, such as late charges, Servicing Fees, or unsecuritized excess spread due the Servicer (i.e., when the Pass-Through Rate on a specific Mortgage Loan is greater than the Pass-Through Rate of the MBS Pool backed by that Mortgage Loan); or
- to clear and terminate the account or transfer any funds to one or more other Custodial Accounts as may be permitted in this Guide.

303.04 Use as a Clearing Account Not Permitted



The Servicer may not use any P&I Custodial Account as a Clearing Account. The Servicer must establish a separate account in an Eligible Depository for this purpose.

Section 304 Tax and Insurance Custodial Accounts

304.01 Purpose of T&I Custodial Accounts

T&I Custodial Accounts are for the deposit of all Borrower payments for taxes, assessments, ground rents, insurance premiums, and any Servicing Advances made by the Servicer for such items.

304.02 T&I Commingling Restrictions

Funds in T&I Custodial Accounts must not be commingled with funds in P&I Custodial Accounts or Collateral Agreement Custodial Accounts. The Servicer may establish:

- a single T&I Custodial Account for all T&I deposits; or
- separate T&I Custodial Accounts, with all Cash Mortgage Loans segregated in a single T&I Custodial Account, and all Securitized Mortgage Loans segregated in another.

Separate T&I Custodial Accounts for individual Mortgage Loans or individual Borrowers may be allowed, but only with Fannie Mae's prior consent.

304.03 Prohibited Use of T&I Custodial Account Funds

Funds in any T&I Custodial Account must not be used to:

- supplement the Borrower's monthly payment obligation to Fannie Mae;
- reimburse the Servicer for any Servicing Advances unless the Servicing Advance is recovered from subsequent collections from or on behalf of the Borrower for the Mortgage Loan for which the Servicing Advance was made; or
- supplement a shortfall in any Borrower's tax or insurance obligation by using another Borrower's tax or insurance deposits. Use of a Borrower's tax or insurance deposits for



a shortfall in either a tax or insurance obligation of that Borrower is permitted so long as the Servicer adjusts future deposits as required by the Guide.

Section 305 Collateral Agreement Custodial Accounts

305.01 Purpose of Collateral Agreement Custodial Accounts

If required by the Loan Documents, the Servicer must establish Collateral Agreement Custodial Accounts for deposits to be made by the Borrower:

- into a Completion/Repair Escrow;
- into a Replacement Reserve;
- into an escrow required to fund operating deficits; and
- into any other escrow required by any Collateral Agreement.

305.02 Commingling Restrictions

Collateral Agreement Custodial Account funds must not be commingled with either P&I or T&I funds. The Servicer may establish one account for all of its Collateral Agreement deposits, or establish a separate Custodial Account for each:

- Mortgage Loan;
- type of Collateral Agreement;
- Borrower; or
- individual Collateral Agreement.

The Servicer must notify its Fannie Mae Representative, as provided by Part V, Chapter 3: Custodial Account Requirements, Section 302.01C: Termination of a Custodial Account, when any Collateral Agreement Custodial Account is closed due to a disbursement of all funds and satisfaction of all responsibilities under the applicable Collateral Agreement.

Section 306 Interest-Bearing Accounts



306.01 Interest-Bearing Account Requirements

The **Custodial Accounts** may be interest-bearing, provided that:

- the **Custodial Account** complies with all applicable local, state, and federal laws and regulations for accounts containing **Borrower's funds**; and
- funds in the **Custodial Account** are available for withdrawal on demand and without prior notice or early withdrawal penalty.

Custodial Accounts that limit the number of withdrawals may be maintained, but the **Servicer** is responsible for any excess withdrawal penalties.

306.02 Loan Documents May Require Interest-Bearing Accounts

If the **Loan Documents** require that the deposits into the particular **Completion/Repair Escrow, Replacement Reserve, or other Collateral Agreement Custodial Account** be held in an interest-bearing account, then the **Servicer** must fully comply with such requirement.

Section 307 Clearing Accounts

307.01 Clearing Accounts Permitted

If deposits and disbursements cannot be made directly to or from the **Custodial Accounts**, the **Servicer** may use a **Clearing Account**. When a **Clearing Account** is used, a separate account must be established for collections and disbursements.

307.02 Custodial Account Requirements Applicable to Clearing Accounts

Any **Clearing Account** used by the **Servicer** for the deposit and transfer of funds collected in connection with a **Mortgage Loan** must be established at an **Eligible Depository**. The titles of the accounts must reflect that they are custodial in nature and the depository in which the accounts are maintained must be informed in writing that they are **Custodial Accounts**. While a **Clearing Account** is not required to be titled in Fannie Mae's name, the **Servicer's** records must clearly identify Fannie Mae's interest in any funds deposited in a **Clearing Account**.



307.03 Clearing Account Activity Guidelines

Clearing Account activity must follow the guidelines set forth below.

307.03A Timing for Crediting to Custodial Account

Collections deposited to the Clearing Account must be credited to the applicable Custodial Account by the first Business Day after the Servicer receives them unless transfer of funds occurs via ACH, in which case an additional Business Day is permitted to complete the transfer. Fannie Mae's allowance of this additional day to deposit funds into the Custodial Account does not extend the date by which the Servicer must remit funds to Fannie Mae.

307.03B Debit and Credit Memos Permitted

Debit and credit memos may be used to transfer funds between the Clearing Account and the Custodial Account.

307.03C Using Checks

Checks that transfer funds from a Custodial Account (other than a P&I Custodial Account) to a disbursement Clearing Account must be deposited to the disbursement Clearing Account concurrent with, or prior to, the issuance of any check drawn on the Clearing Account.

307.03D Insufficient Funds Checks

Checks returned for "insufficient funds" may be netted against another day's collections, or a check may be drawn on the Custodial Account to reimburse the Clearing Account.

307.03E Records and Audit Trails

Adequate records and audit trails must be maintained to support all credits to, and charges from, the Borrower's payment records and the Clearing Accounts.

Section 308 Drafting Accounts

308.01 Establishing Drafting Accounts



To simplify the transfer of funds to Fannie Mae, the Servicer may use Drafting Accounts. Any Drafting Account must be established at an Eligible Depository, and the title of the Drafting Account must reflect that it is custodial in nature. The depository must be given written notification that the Drafting Account is a Custodial Account established for the benefit of Fannie Mae.

308.02 Consolidated Custodial Account

A Letter of Authorization (Form 2050) must be submitted to Fannie Mae when establishing a consolidated Custodial Account for drafting purposes.

308.02A Distinct Custodial Accounts for Securitized Mortgage Loans (Other Than PFP MBS)

Separate consolidated Custodial Accounts must be used for drafting P&I remittances for Securitized Mortgage Loans (other than PFP MBS), and other separate consolidated Custodial Accounts must be used for remittances for all other products and executions.

308.02B Timely Remittance

If the Servicer establishes one or more consolidated Custodial Accounts for drafting funds to Fannie Mae, the Servicer must move all funds due Fannie Mae into the consolidated Custodial Account in time to meet Fannie Mae's remittance requirements.

308.02C Commingling of P&I Funds Permitted for Cash Executions

A Servicer that services multiple Multifamily Mortgage Business products and executions for Cash Mortgage Loans may commingle temporarily P&I funds for all such products and executions under its master five-digit Servicer number into one Drafting Account that has been designated as a consolidated Drafting Account for such Cash Mortgage Loans.

308.02D Commingling of P&I Funds Permitted for Securitized Mortgage Loans

A Servicer that services multiple Multifamily Mortgage Business products and executions for Securitized Mortgage Loans may commingle temporarily P&I funds for all such products and executions under its master five-digit Servicer number into one Drafting Account that has been designated as a consolidated Drafting Account for such



Securitized Mortgage Loans:

308.02E Separate Accounts for P&I Funds Permitted

The Servicer may designate one Drafting Account for P&I funds for each product and execution that the Servicer services under each of its nine-digit Servicer numbers.

308.02F Corporate/General Lender Accounts Not Permitted

The Servicer's corporate, general ledger, or other internal operating account may not be designated as a Drafting Account.

308.02G Timing of Commingling

When the Servicer commingles funds, the funds must not be commingled earlier than the Business Day preceding the Business Day on which the funds are to be drafted.

308.02H Election of Cash Remittance System or Automated Drafting System Required

The Servicer must use either the Cash Remittance System or the Automated Drafting System (the system used for remittances related to Securitized Mortgage Loans). When the Servicer establishes a consolidated Custodial Account for the Cash Remittance System, the Servicer cannot establish a separate consolidated Custodial Account under the Automated Drafting System.

308.02I Required Records

The Servicer must maintain records on an individual Mortgage Loan level basis regarding the sources of the commingled funds.

Section 309 Custodial Account Reconciliations

The Servicer must perform a monthly analysis and reconciliation of each of the following Custodial Accounts maintained by the Servicer:

- P&I;
- T&I; and
- Collateral Agreement.



At a minimum, the reconciliation must include:

- a depository reconciliation;
- composition of cashbook balance; and
- an explanation of line items.

Fannie Mae may review the Servicer's reconciliation, including an explanation of any adjustments made by the Servicer, the specific cashbook balances, and any individual components.

While Fannie Mae does not prescribe a record keeping method for the Servicer to use to generate a cashbook balance, the Servicer must:

- maintain the integrity of the Custodial Account balances that it reports on the reconciliation forms; and
- be able to substantiate each of the cashbook components.

At a minimum, the Servicer must retain sufficient detail to perform the following cashbook computation:

Function	Beginning Cashbook Balance
+	Receipts
-	Disbursements
+/-	Cashbook Adjustments
=	Ending Cashbook Balance

Section 310

Taxes, Assessments, Insurance Premiums, and Other Charges/Obligations

310.01 Taxes and Insurance and Other Custodial Accounts

The Servicer must ensure that all applicable real estate taxes, special assessments, insurance premiums, ground rents, and other charges or obligations that could become Liens against the Property are paid on a timely basis. If the Servicer is collecting T&I Payments,



the **Servicer** must pay any penalty or late fee incurred for failing to make timely payments.

310.02 Collections for T&I and Other Obligations

310.02A T&I and Other Obligations

Unless precluded by the **Loan Documents**, the **Servicer** must collect monthly payments from the **Borrower** for T&I to ensure that adequate funds will be on deposit to timely pay all of the following (the “**T&I Obligations**”):

- real estate taxes;
- special assessments;
- water and sewer assessments which, if unpaid, would give rise to a **Lien** against the **Property**;
- insurance premiums;
- **Ground Lease** payments (if applicable); and
- any other similar charges or obligations.

The **Servicer** may engage qualified third parties to manage the:

- collection of funds deposited into the **T&I Custodial Account**; and
- payment of **T&I Obligations**, provided that the **Servicer** adequately manages and monitors the vendor.

310.02B Collections for T&I Obligations

All collections by the **Servicer** from the **Borrower** for the payment of **T&I Obligations** must be deposited in a **T&I Custodial Account** meeting the requirements for a **Custodial Account** described in **Part V, Chapter 3: Custodial Account Requirements, Section 301.02: Custodial Account Types, Investments, and Depositories**.

310.02C No Financing for T&I Obligations

The **Servicer** must not provide financing to the **Borrower**, or



otherwise permit the Borrower to obtain financing, in order to pay any T&I Obligation.

310.03 Interest Earned on T&I and Other Custodial Accounts

The Servicer must comply with any applicable law, regulation, or other legal requirement that obligates the Servicer to pay to the Borrower interest earned on the T&I Custodial Account, otherwise the Servicer may retain such interest.

310.04 Accounting for T&I Custodial Accounts

The Servicer is responsible for maintaining and administering all funds collected from the Borrower and held in a T&I Custodial Account on a Mortgage Loan basis. At a minimum, the Servicer must account for the following in connection with each Mortgage Loan:

- the amounts of, and payment deadlines for, all T&I Obligations that must be funded from the T&I Custodial Account;
- the monthly funds due for deposit into the T&I Custodial Account;
- the funds actually received and deposited in the T&I Custodial Account;
- all withdrawals made from the T&I Custodial Account; and
- any amounts advanced by the Servicer as Servicing Advances for T&I Obligations.

310.05 Commingling of Funds in T&I Custodial Accounts

The Servicer may use a single T&I Custodial Account to hold funds collected from multiple Borrowers for the aggregate T&I Obligations of such Borrowers.

310.06 T&I Account Shortfalls

The Servicer must not use funds collected from one Borrower to pay obligations of another Borrower. Any shortfall in the T&I Custodial Account for a particular Borrower must be paid by that Borrower, or by the Servicer in the form of a Servicing Advance. The



310.07 Servicer is responsible for any misuse of funds and shortfalls in the T&I Custodial Account.

310.07 Periodic Analysis of Borrower's T&I Obligations and Custodial Account Collections

310.07A Timing of Analysis

The Servicer must analyze its T&I Custodial Account records:

- annually for each Mortgage Loan; and
- when a change occurs in the T&I Obligations for any Borrower.

The Servicer must determine whether the Borrower's funds held in the T&I Custodial Account, together with the Borrower's required monthly deposit into the T&I Custodial Account, are sufficient to make timely payments for all upcoming T&I Obligations for that Borrower.

310.07B Insufficient Borrower Funds

If the Borrower's funds held in the T&I Custodial Account are insufficient to timely pay all T&I Obligations, the Servicer must:

- bill the Borrower for any shortage; and/or
- increase the Borrower's monthly payment into the T&I Custodial Account to ensure that funds are available to timely pay all T&I Obligations due.

Provided the amount of the Borrower's future deposits are adjusted as required above, the Servicer may use:

- a Borrower's deposits for taxes in the T&I Custodial Accounts for a shortfall in that Borrower's insurance T&I Obligation; or
- a Borrower's deposits for insurance in the T&I Custodial Accounts for a shortfall in that Borrower's tax T&I Obligation.

310.07C Custodial Account Surplus



The Servicer must ensure the Borrower's funds held in the T&I Custodial Account are sufficient to timely pay all applicable T&I Obligations due. However, the Servicer may not maintain a surplus in the T&I Custodial Account equal to more than 2 monthly T&I payments for any Borrower. At the time of the T&I Custodial Account analysis, provided that no event of default by the Borrower or any other party under any of the Loan Documents beyond any applicable grace or cure period has occurred, the Servicer must either:

- refund the amount of the surplus in excess of the 2 monthly T&I payments to the Borrower; or
- reduce the amount of the Borrower's required monthly deposit into the T&I Custodial Account to ensure that the surplus will be reduced by the amount exceeding 2 monthly T&I payments within 12 months.

If an event of default by the Borrower or any other party under any of the Loan Documents beyond any applicable grace or cure period has occurred, no surplus from the T&I Custodial Account may be refunded to the Borrower.

310-08 Annual T&I Custodial Account Statements

By January 31st of each year, the Servicer must provide the Borrower with either a written statement, or notice and access to an electronic statement, detailing all activity relating to the Borrower's T&I Custodial Account during the preceding calendar year. The statement must include:

- the balance of the Borrower's funds on deposit in the T&I Custodial Account at the beginning of the preceding calendar year;
- the total deposits made by the Borrower into the T&I Custodial Account during the preceding calendar year;
- the total withdrawals made by the Servicer during the preceding calendar year, and an itemization of the amounts of the specific T&I Obligations and other charges (e.g., real estate taxes, insurance premiums, etc.) that were paid with such withdrawals;
- the balance of the Borrower's funds on deposit in the T&I Custodial Account at the end of the calendar year; and



- the amount of interest, if any, paid or credited to the Borrower on the Borrower's funds on deposit in the T&I Custodial Account.

The Servicer's monthly statement to the Borrower may be used as a substitute for the annual statement of the Borrower's funds on deposit in the T&I Custodial Account so long as such monthly statements are itemized and reflect cumulative deposits and withdrawals. The Servicer may be required to submit copies to Fannie Mae of the statements of any or all Borrower funds on deposit in the T&I Custodial Accounts.



Chapter 3

Custodial Accounts

Section 301

Generally

301.01 Maintenance

Requirements

For all funds collected per the [Loan Documents](#), you must:

- [establish and maintain the following per this Chapter:](#)
 - [P&I Custodial Accounts;](#)
 - [T&I Custodial Accounts; and](#)
 - [Collateral Agreement Custodial Accounts; and](#)
- [maintain strict control of all funds in your custody.](#)

[Operating Procedures](#)

You must maintain all accounts and related records:

- [for all](#)
 - [Custodial Accounts,](#)
 - [Drafting Accounts, and](#)
 - [Clearing Accounts;](#)
- [using sound accounting and cash management practices; and](#)
- [enabling Fannie Mae to audit them at any time.](#)

301.02 Fannie Mae's Rights

Requirements

Fannie Mae has a security interest in all [Mortgage Loan Custodial Accounts](#) and may require you to:

- [transfer funds from an institution \(even if it is an Eligible Depository\) into another Eligible Depository;](#)



- move funds to a trust account;
- ensure funds are fully insured with the FDIC, NCUSIF, or other acceptable governmental insurer or guarantor;
- remit more frequently while allowing funds to remain in the existing Custodial Account; and
- take other actions based on risks, account size, and other factors.

301.03 Eligible Depositories and Ratings

301.03A Eligible Depository

Requirements

You must ensure all Custodial Accounts are demand deposit or money market accounts maintained at an Eligible Depository. An Eligible Depository is:

- a Federal Reserve Bank;
- a Federal Home Loan Bank; or
- depository institution if it complies with the following.

<u>Depository Institution..</u>	<u>Must..</u>
<u>Accounts</u>	<u>Be insured by the</u> <ul style="list-style-type: none"> • <u>Federal Deposit Insurance Corporation, or</u> • <u>National Credit Union Share Insurance Fund.</u>
<u>Rating</u>	<u>Have an applicable Federal or State rating of</u> <ul style="list-style-type: none"> • <u>“well capitalized”, or</u> • <u>if unrated, meet the capital requirements for a “well capitalized” rating.</u>



Depository Institution..	Must..
<p><u>Minimum Financial Ratings for Assets \$20 Billion or More</u></p>	<ul style="list-style-type: none"> • <u>If rated by both S&P and Moody's, meet all of the following:</u> <ul style="list-style-type: none"> - <u>for S&P:</u> <ul style="list-style-type: none"> ▪ <u>an "A-2" short-term issuer rating; and</u> ▪ <u>a "BBB" long-term issuer rating; and</u> - <u>for Moody's:</u> <ul style="list-style-type: none"> ▪ <u>a "P-3" short-term bank deposit rating; and</u> ▪ <u>a "Baa2" long-term bank deposit rating.</u> • <u>If only rated by S&P, have:</u> <ul style="list-style-type: none"> - <u>an "A-2" short-term issuer rating; and</u> - <u>a "BBB" long-term issuer rating.</u> • <u>If only rated by Moody's, have:</u> <ul style="list-style-type: none"> - <u>a "P-3" short-term bank deposit rating; and</u> - <u>a "Baa2" long-term bank deposit rating.</u>
<p><u>Minimum Financial Ratings for Assets Less than \$20 Billion</u></p>	<p><u>Meet at least 1 of the following:</u></p> <ul style="list-style-type: none"> • <u>For S&P:</u> <ul style="list-style-type: none"> - <u>an "A-2" short-term issuer rating; and</u> - <u>a "BBB" long-term issuer rating.</u> • <u>For Moody's:</u> <ul style="list-style-type: none"> - <u>a "P-3" short-term bank deposit rating; and</u> - <u>a "Baa2" long-term bank deposit rating.</u> • <u>For IDC Financial Publishing, Inc., or its successor, a 175.</u> • <u>For Kroll Bond Rating Agency, Inc., or its successor, a C+.</u>

 Operating Procedures



You may establish the account within your own institution if you

- are an Eligible Depository, and
- do not use your general ledger or internal operating account for Custodial Accounts.

301.03B Verifying Depository Ratings

Requirements

You must monitor the financial viability of custodial fund depositories.

If a depository or its holding company does not meet the Eligible Depository ratings per Eligible Depository (16666), you must transfer the Custodial Account to an Eligible Depository within 30 days.

Operating Procedures

To determine an Eligible Depository:

- use the most recent financial ratings issued within the past 3 months; and
- confirm the ratings every 3 months.

301.04 Investments and Interest

Requirements

You must:

- comply with the interest-bearing requirements per the Loan Documents when establishing accounts;
- not invest Custodial Account funds, other than typical demand deposit or money market account earnings (e.g., interest); and
- when required by law or the Loan Documents, pay the Borrower Custodial Account earnings.

Operating Procedures



You may establish interest-bearing Custodial Accounts if:

- they comply with all applicable local, state, and federal laws and regulations regarding Borrower funds;
- funds can be withdrawn on demand without prior notice; and
- either
 - there is no early withdrawal penalty, or
 - the number of withdrawals is limited, but you are responsible for any excess withdrawal penalties.

➔ Guidance

You may retain any Custodial Account earnings you are not required to pay the Borrower.

301.05 Clearing Accounts

Requirements

You must:

- not use any Custodial Account as a Clearing Account; and
- establish a Clearing Account per Clearing Accounts (16781) if deposits and disbursements cannot be made directly to or from the Custodial Accounts.

301.06 Liability

301.06A Losses

Requirements

You are responsible for any:

- Custodial Account losses; and
- damages Fannie Mae suffers due to funding delays, even if you complied with the Guide.



If you incur losses, Fannie Mae will not:

- [reimburse them; or](#)
- [include them in any Mortgage Loan loss sharing calculation.](#)

301.06B [Overdrafts](#)

[Requirements](#)

You must ensure a [Custodial Account](#) is never overdrawn.

[Operating Procedures](#)

If an overdraft occurs, you must advance your own funds within [1 Business Day](#) to cure the overdraft.

Section 302 [Administration](#)

302.01 [Notifications](#)

[Operating Procedures](#)

Within 30 days of opening or closing a [Custodial Account](#), or changing the [Eligible Depository](#) or [Custodial Account](#) information:

Step 1: You and the depository institution must execute the applicable:

- [Letter of Authorization for Multifamily P&I Custodial Account \(Form 2050\);](#)
- [Letter of Authorization for Multifamily T&I Custodial Account \(Form 2052\); or](#)
- [Letter of Authorization for Multifamily Collateral Agreement Custodial Account \(Form 2051\).](#)

Step 2: You must submit the executed document per the form's instructions.

302.02 [Titling](#)

[Operating Procedures](#)



You must:

- Ensure all Custodial Accounts are titled:

[You], as agent, trustee, and/or bailee for Fannie Mae and/or payments of various mortgagors and/or various owners of interests in mortgage-backed securities (Custodial Account).

- Submit:

- a copy of a
 - signature card,
 - bank statement, or
 - system generated screen print; and
- the applicable Letter of Authorization per Notifications (16706).

302.03 Deposits

Requirements

You must deposit any funds no later than the second Business Day (including any time funds are in a Clearing Account or general ledger account) after receiving them.

 Operating Procedures

For deposits:

- Establish a daily cutoff ensuring collections are credited to the appropriate Custodial Account no later than the Business Day after receiving them.
- Ensure collections deposited to the Clearing Account are credited to the applicable Custodial Account by:
 - for non-ACH funds, the first Business Day after receiving them; or
 - for ACH funds, the second Business Day after receiving them, but this does not extend your deadline to remit funds to Fannie Mae.



Section 303

P&I Custodial Accounts

303.01 Accounts and Deposits

☑ Requirements

You must:

- Maintain 1 separate P&I Custodial Account for each of these Mortgage Loan categories:
 - Cash Mortgage Loans and PFP Mortgage Loans;
 - MBS Mortgage Loans, including
 - MBS Mortgage Loans issued using a REMIC election after January 1, 2021, and
 - MBS for Bonds;
 - Credit Enhancement Mortgage Loans or transactions with Credit Enhancement Instruments;
 - REMIC transactions submitted in the Multifamily Negotiated Transactions (MFNT) application; and
 - any other Securitized Mortgage Loans.
- Not commingle P&I Custodial Account funds among the Mortgage Loan categories. For example, P&I funds for an MBS Mortgage Loan may not be commingled with P&I funds for a Cash Mortgage Loan, even for the same Borrower.
- Use P&I Custodial Accounts for all Borrower P&I Mortgage Loan payments, including any
 - unscheduled principal or interest payments,
 - Delinquency Advances, or
 - recovered Delinquency Advances.

➔ Guidance

You may commingle P&I funds for all Mortgage Loans within the same Mortgage Loan category.

303.02 Withdrawals



Requirements

You must only withdraw funds from the [P&I Custodial Account](#) to:

- [Remit funds to Fannie Mae.](#)
- [Reimburse a \[Delinquency Advance\]\(#\) recovered from subsequent collections.](#)
- [Remove funds erroneously deposited.](#)
- [Transfer interest or typical demand deposit or money market account earnings.](#)
- [Pay the \[Guaranty Fee\]\(#\) \(unless you received a notice of default from any Security Trust Indenture guarantor\).](#)
- [Remove fees, charges, or other amounts deposited on a temporary basis, including](#)
 - [late charges,](#)
 - [Servicing Fees, or](#)
 - [unsecuritized excess spread \(i.e., when a \[Mortgage Loan's Pass-Through Rate\]\(#\) is greater than the \[MBS Pool's Pass-Through Rate\]\(#\)\).](#)
- [Clear and close the account.](#)
- [Transfer any funds to 1 or more other \[Custodial Accounts\]\(#\) per this Chapter.](#)

Section 304

T&I Custodial Accounts

304.01 Deposits

Requirements

You must:

- [use \[T&I Custodial Accounts\]\(#\) for](#)
 - [all \[Borrower payments\]\(#\) for \[T&I Impositions\]\(#\) per \[T&I Impositions \\(16746\\)\]\(#\), and](#)
 - [Servicing Advances](#) you make for these items; and



- not commingle T&I Custodial Account funds with
 - P&I Custodial Account funds, or
 - Collateral Agreement Custodial Account funds.

Operating Procedures

You may establish:

- 1 T&I Custodial Account for all T&I deposits from all Mortgage Loans; or
- 2 separate T&I Custodial Accounts, with funds for all
 - Cash Mortgage Loans in 1 T&I Custodial Account, and
 - Securitized Mortgage Loans in the other T&I Custodial Account.

You must obtain Fannie Mae's consent to establish a separate T&I Custodial Account for an individual

- Mortgage Loan, or
- Borrower.

304.02 T&I Impositions

Requirements

Unless precluded by the Loan Documents, you must:

- collect monthly payments from the Borrower;
- ensure all T&I Impositions are timely paid, including:
 - real estate taxes;
 - special assessments;
 - water and sewer assessments;
 - PILOTs;
 - insurance premiums;
 - ground lease rents; and



- all other charges or obligations that could become a Lien against the Property; and
- pay any penalty or late fee if you fail to make timely payments.

➔ Guidance

You may:

- Charge the Borrower for any penalty or late fee incurred if the failure to timely pay was due to insufficient T&I Custodial Account funds.
- Use qualified third-party vendors (that you manage and monitor) to
 - collect T&I Custodial Account funds, and
 - pay T&I Impositions.

304.03 Shortfalls

Requirements

T&I Custodial Account shortfalls must be paid by

- the Borrower, or
- you (i.e., a Servicing Advance).

304.04 Prohibited Uses

Requirements

You must not use any T&I Custodial Account funds to:

- supplement a shortfall in the Borrower's monthly P&I payment to Fannie Mae;
- reimburse yourself for any Servicing Advance unless it is recovered from subsequent collections for that Mortgage Loan; or
- supplement a shortfall in a Borrower's taxes or insurance payment using another Borrower's tax or insurance deposits.



→ [Guidance](#)

You may use a Borrower's own tax or insurance deposits to cover a shortfall in the Borrower's tax or insurance obligation if you adjust future deposits per [Insufficient Funds \(16831\)](#).

304.05 [No Financing for T&I Impositions](#)

[Requirements](#)

To pay any T&I Impositions, you must not

- [provide financing to the Borrower, or](#)
- [allow the Borrower to obtain financing.](#)

Section 305

[Collateral Agreement Custodial Accounts](#)

305.01 [Deposits](#)

[Requirements](#)

If required by the [Loan Documents](#), you must establish [Collateral Agreement Custodial Accounts](#) for the Borrower's deposits for any:

- [Completion/Repair Escrow;](#)
- [Replacement Reserve;](#)
- [operating deficit escrow; and](#)
- [other Collateral Agreement escrow.](#)

[Operating Procedures](#)

You may establish

- [1 account for all Collateral Agreement deposits, or](#)
- [a separate Custodial Account for each:](#)
 - [Mortgage Loan;](#)
 - [Collateral Agreement type;](#)



- [Borrower; or](#)
- [Collateral Agreement.](#)

305.02 Full Disbursement

[Operating Procedures](#)

[You must close the Custodial Account per Notifications \(16706\) after you](#)

- [complied with the Collateral Agreement, and](#)
- [disbursed all Custodial Account funds.](#)

Section 306

Clearing Accounts

[Requirements](#)

[When establishing a Clearing Account, you must:](#)

- [use an Eligible Depository;](#)
- [title the account to reflect it is custodial; and](#)
- [inform the depository in writing it is a custodial account.](#)

[Operating Procedures](#)

[If you use a Clearing Account for deposits and disbursements, you:](#)

- [must establish a separate account for collections and disbursements;](#)
- [may use debit and credit memos to transfer funds between the Clearing Account and the Custodial Account; and](#)
- [are not required to title the Clearing Account in Fannie Mae's name, but your records must show Fannie Mae's interest in the deposits.](#)

[Guidance](#)



All [Clearing Accounts](#) should have a zero balance at the close of each [Business Day](#).

Section 307

Drafting Accounts

307.01 [Establishing Drafting Accounts](#)

[Guidance](#)

You may use [Drafting Accounts](#) to simplify transferring funds to [Fannie Mae](#).

[Requirements](#)

You must comply with [Clearing Accounts \(16781\)](#) when establishing a [Drafting Account](#).

307.02 [Consolidated Custodial Accounts](#)

[Requirements](#)

Topic	You must...
Securitized Mortgage Loans (Other Than PFP MBS)	Use separate consolidated Custodial Accounts for drafting: <ul style="list-style-type: none"> • P&I remittances for Securitized Mortgage Loans (other than PFP MBS); and • remittances for all Mortgage Loan categories per Accounts and Deposits (16726).
Corporate/General Lender Accounts	Not designate your corporate, general ledger, or other internal operating account as a Drafting Account .
Records	Maintain records of the commingled fund sources on an individual Mortgage Loan basis .

[Operating Procedures](#)



Topic	You...
<u>Establishing Accounts</u>	Must submit a <u>Letter of Authorization (Form 2050)</u> .
<u>Timely Remittance</u>	Must move all funds due into the account to ensure <u>timely remittance to Fannie Mae</u> .
<u>Cash Mortgage Loans</u>	May temporarily commingle <u>P&I funds for all Cash Mortgage Loan categories per Accounts and Deposits (16726)</u> into 1 consolidated <u>Drafting Account</u> under your master 5-digit <u>Servicer number</u> .
<u>Securitized Mortgage Loans</u>	May temporarily commingle <u>P&I funds for all Securitized Mortgage Loan categories per Accounts and Deposits (16726)</u> into 1 consolidated <u>Drafting Account</u> under your master 5-digit <u>Servicer number</u> .
<u>P&I Funds</u>	May designate 1 <u>Drafting Account</u> for <u>P&I funds for each Mortgage Loan category per Accounts and Deposits (16726)</u> under each of your 9-digit <u>Servicer numbers</u> .
<u>Commingling Timing</u>	Cannot commingle funds earlier than 1 <u>Business Day</u> before the funds will be drafted.
<u>System</u>	Must use the <ul style="list-style-type: none"> • <u>Cash Remittance System, or</u> • <u>Automated Drafting System(for Securitized Mortgage Loans)</u>. When you establish a consolidated <u>Custodial Account</u> for the <u>Cash Remittance System</u> , you must establish a separate consolidated <u>Custodial Account</u> under the <u>Automated Drafting System</u> .

Section 308

Recordkeeping and Reconciliations

308.01 Account Analysis and Reconciliation

Requirements



You must analyze and reconcile each Custodial Account and associated Clearing Accounts monthly.

Operating Procedures

At a minimum, your reconciliation must include:

- a depository reconciliation;
- the cashbook balance composition; and
- an explanation of line items.

Fannie Mae may review your reconciliation including:

- an explanation of any adjustments you made;
- the specific cashbook balances; and
- any individual components.

While Fannie Mae does not prescribe a recordkeeping method to generate a cashbook balance, you must:

- maintain the integrity of the Custodial Account balances reported on your reconciliations;
- be able to substantiate each cashbook component; and
- retain sufficient detail to perform the following cashbook computation:

<u>Function</u>	<u>Beginning Cashbook Balance</u>
<u>+</u>	<u>Receipts</u>
<u>-</u>	<u>Disbursements</u>
<u>+/-</u>	<u>Cashbook Adjustments</u>
<u>≡</u>	<u>Ending Cashbook Balance</u>

308.02 Records

Operating Procedures



You must maintain adequate documentation supporting the Borrower's payment records, including Clearing Account credits and charges.

308.03 For T&I Custodial Accounts

Requirements

You must maintain and administer all Borrower funds held in a T&I Custodial Account on an individual Mortgage Loan basis.

Operating Procedures

At a minimum, for each Mortgage Loan in a T&I Custodial Account, you must account for:

- T&I Imposition payment deadlines and amounts funded from the account;
- monthly funds due for deposit;
- funds received and deposited;
- withdrawals; and
- amounts you advance for T&I Impositions.

308.04 Borrower's T&I Impositions and Custodial Accounts

308.04A Analysis Timing

Operating Procedures

You must:

- Analyze your T&I Custodial Account records:
 - annually for each Mortgage Loan; and
 - when a material change occurs in a Borrower's T&I Impositions.
- Determine if the Borrower's T&I Custodial Account funds, plus the Borrower's required monthly deposits, are sufficient to timely pay all upcoming T&I Impositions.

308.04B Insufficient Funds



Operating Procedures

If the Borrower's T&I Custodial Account funds are insufficient to timely pay all T&I Impositions, you must

- bill the Borrower for any shortage, and/or
- increase the Borrower's monthly T&I Custodial Account deposit.

After adjusting the Borrower's future deposits, you may use those funds for a shortfall in either taxes or insurance.

308.04C Surplus

Requirements

You must not maintain a surplus of more than 2 monthly T&I payments in the T&I Custodial Account.

Operating Procedures

If the T&I Custodial Account has a surplus of more than 2 monthly T&I payments, you must:

- refund the Borrower the amount of the surplus above the 2 monthly T&I payments; or
- reduce the Borrower's required monthly T&I Custodial Account deposit to reduce the surplus to no more than 2 monthly T&I payments within 12 months.

You cannot refund any T&I Custodial Account surplus if the Borrower or any other party has defaulted under any of the Loan Documents beyond any grace or cure period.

308.05 Annual Statements

Operating Procedures

By January 31st of each year, you must issue the Borrower a T&I Custodial Account statement reporting all activity during the preceding calendar year. You can provide this statement



- in writing, or
- via electronic access.

➔ Guidance

Your annual T&I Custodial Account statement must include:

- Borrower's fund balance at the beginning of the year;
- total Borrower deposits into the account;
- total withdrawals you made;
- itemized list of specific T&I Impositions and other charges (e.g., real estate taxes, insurance premiums, etc.) you paid with the withdrawals;
- Borrower's fund balance at the end of the year; and
- amount of interest, if any, paid or credited to the Borrower on their funds.



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 V, Chapter 6: Watchlist Management](#) and [Part V, Chapter 7: Non-Performing Mortgage Loans](#). This Chapter covers the [Servicer's](#):

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

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

Fannie Mae

Attention: (Drawer AM, Structured AM, Seniors AM,
or Assumption/Transfer)

Mailstop 8V-21

1100 15th Street, NW

Washington, DC 20005.

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

401.02 Monitoring Compliance with Loan Documents



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

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

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

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

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 Account Requirements, Section 301: Custodial Accounts Generally (16646)** if changes are required to any existing **Collateral Agreement Custodial Account**, or if any new **Collateral Agreement Custodial Account** must be established in connection with the transaction;
- retaining copies of all documents, correspondence, and any internal notes or analysis relating to the transaction in the **Servicing File**; and
- taking any other actions the **Servicer** or its legal counsel determines



are necessary.

Section 407 Subordinate Financing

407.01 Non-Fannie Mae Subordinate Financing

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

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

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



407.02 Prerequisite for Subordinate Financing

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

407.03 Fees for Subordinate Financing

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

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

407.04 Submitting the Request for Subordinate Financing

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

- the Servicer must submit the request to Fannie Mae at least 30 days before the projected closing date of the Subordinate Loan; and
- the submission must contain:
 - an Appraisal (obtained at the Borrower's cost), dated no earlier than 90 days prior to the date of the Borrower request for approval of the Subordinate Loan, that complies with Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation;



- Servicer's underwriting spreadsheet showing the Subordinate Loan's effect on the Property's income, expenses, NCF, DSCR, and LTV;
- a copy of the final, unsigned loan documents evidencing the Subordinate Loan, with the loan amount, interest rate, payment schedules, and all other transaction related information completed;
- the MBA Standard Inspection Form documenting a physical inspection of the Property, performed at Borrower's expense, occurring no earlier than 90 days before the date of the Borrower request for the Subordinate Loan; provided that, if the Servicer's inspection of the Property reveals that the Property is not being properly maintained, the Borrower request will not be approved by Fannie Mae unless:
 - a Replacement Reserve is sufficiently funded; and
 - the Borrower makes any immediate repairs identified by the Servicer prior to the closing date of the Subordinate Loan; and
- a title policy endorsement for the Property showing no unauthorized Liens or encumbrances of any nature against the Property.

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

407.05 Fannie Mae Approval and Execution

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

407.06 Subsequent Servicer Actions

The Servicer must:

- not permit any changes to the form Subordination Agreement (Form 6414 or Form 6456 for the 6000 series



Loan Documents; Form 4503 or Form 4507 for the 4000 series Loan Documents) without the prior written consent of Fannie Mae;

- obtain a satisfactory title policy endorsement effective as of the date of recordation of the subordinate security instrument that:
 - insures the Lien of the Security Instrument as senior to the Lien of the subordinate security instrument; and
 - reflects the recordation of the Subordination Agreement;
- submit a copy of the recorded Subordination Agreement through the MAMP; and
- send the original executed copy of the recorded Subordination Agreement and the title policy endorsement to Multifamily Certification and Custody within 15 Business Days, and retain copies of each in the Servicing File.

Section 408 Administration of Collateral Agreements

408.01 General Administrative Requirements

408.01A Administration of Funds

The Servicer must:

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

408.01B Funds to be Held in a Custodial Account

The Servicer must deposit funds held under a Collateral



Agreement in a Custodial Account that meets the requirements of **Part V, Chapter 3: Custodial Account Requirements** **Custodial Accounts (16641)**.

408.01C Use of Funds

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

408.01D Funds as Additional Security for Mortgage Loan

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

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

408.01E Servicer's Fees and Costs

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

408.01F Waiver or Modification of Terms of Collateral Agreement



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

408.02 Achievement Agreement or Other Agreement for Additional Collateral

408.02A General

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

- **Multifamily Loan Agreements**, including the **Completion/Repair Schedule** and **Replacement Reserve Schedule**;
- **Security Instruments**;
- **Replacement Reserve Agreements**; and
- **Completion/Repair Agreements**.

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

408.02B Releases or Reductions in Collateral

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

1. General

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



Servicer of its decision.

2. Supporting Documentation and Analysis

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

(a) Income and Expense Statements; Current Rent Roll

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

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

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

The Servicer must ensure that all appropriate types of expenses, including underwritten Replacement Reserve deposits, are included, and that any inappropriate expenses (e.g., capital improvement costs,



repair costs covered by funds set aside under a [Completion/Repair Agreement](#), partnership costs, etc.) are excluded. To avoid unwarranted releases or reductions of collateral, the expense figures must reflect stabilized operating conditions, and must not be understated due to efficiencies or savings that could not be replicated by a different owner or manager, or that would not be recognized for underwriting purposes.

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

(b) Servicer's Analysis

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

(c) Correspondence

The [Servicer](#) must provide any correspondence with the [Borrower](#) that pertains to the release or reduction request.

3. Property Inspection

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

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

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



Form.

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

1. Draws Triggered by Adverse Events

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

- a default under the **Loan Documents**, including the **Achievement Agreement** or other **Collateral Agreement**;
- the failure to renew or replace an expiring **Letter of Credit** at least 30 days prior to its expiration date, or other deadline specified in the **Achievement Agreement** or other **Collateral Agreement**; or
- the failure to replace a **Letter of Credit** by the replacement deadline when the **Issuer** is no longer acceptably rated.

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

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

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

- the **Borrower** presents a replacement **Letter of Credit** and Fannie Mae agrees, in its sole discretion, to accept the **Letter of Credit**;
(NOTE: Any agreement by Fannie Mae to accept a replacement **Letter of Credit** will be conditioned upon the **Borrower's** payment of all administrative and legal costs incurred by the **Servicer** and Fannie Mae in connection with the replacement of the **Letter of Credit**.)



- the release or reduction provisions of the applicable [Achievement Agreement](#) or other [Collateral Agreement](#) are satisfied; or
- the [Borrower](#) pays all amounts due and payable under the [Loan Documents](#), including any required [Prepayment Premium](#), and Fannie Mae releases the [Lien of the Security Instrument](#).

3. Draws Occasioned by Borrower Request

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

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

4. No Interest on Proceeds Held by Fannie Mae

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

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

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

- [Form 6268](#) – Modifications to Multifamily Loan and Security



Agreement (Additional Reserve Escrows);

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

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

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

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

408.03 Completion/Repairs

408.03A General

The **Loan Documents** for administering **Completion/Repairs** are:

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

The **Servicer** must administer the **Loan Documents** to ensure the timely implementation of all **Completion/Repairs**. Once the **Completion/Repairs** are completed and comply with the **Guide**, the **Servicer** must enter the final completion dates and close out the work items for the **Mortgage Loan** in the **Completion/Repair** module in the



MAMP. Additional information may be required for any **Mortgage Loan** assigned to Loss Mitigation. If the **Mortgage Loan** does not have work items in the **MAMP**, no further action in the **MAMP** is required.

408.03B Extensions for Completion/Repairs

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

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

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

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

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

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

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

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

- determine whether the extension requires an amendment to the **Loan Documents**; and



document a required amendment in any form the Servicer determines to be legally enforceable.

408.03C Completion/Repair Loan Document Amendments

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

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

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

The Servicer must:

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

408.03D Servicer's Administrative Requirements

For all Completion/Repairs, the Servicer must:

- retain a copy of the executed Multifamily Loan Agreement and Completion/Repair Schedule or Completion/Repair Agreement in its Servicing File;



- hold all Completion/Repair Escrow funds in an account that meets the Custodial Account requirements of Part V, Chapter 3: Custodial Account Requirements Custodial Accounts (16641);
- ensure that all necessary permits are obtained, and that all required work is satisfactorily completed in a good and workmanlike manner by the completion dates stipulated in the Loan Documents;
- for a Green Rewards Mortgage Loan, ensure all Efficiency Measures are completed in a timely manner and no later than:
 - 12 months after the Mortgage Loan Origination Date; or
 - any shorter time period per Part II, Chapter 4: Inspections and Reserves, Section 402: Property Condition Assessment (PCA) for capital improvements identified as Immediate Repairs by the PCA;
- process Borrower requisitions for funds in accordance with the terms and conditions of the Loan Documents;
- perform required inspections of completed work and, if appropriate, work in progress and, if necessary, arrange inspections by qualified professionals;
- ensure that the Completion/Repair work does not result in any mechanics' Liens, materialmen's Liens, or other Liens that have not been acceptably bonded over;
- promptly submit a Non-Monetary Default Borrower Request in the MAMP for any Completion/Repair Loan Document default;
- take appropriate steps to remedy or address any default under the Loan Documents for Completion/Repairs; and
- perform all other administrative duties required by the Loan Documents for Completion/Repairs.

408.03E Processing Borrower Requisitions

1. General

Completion/Repair Escrow funds are available to reimburse the Borrower for costs incurred for Completion/Repairs



that are specifically identified in the [Loan Documents](#). The [Servicer](#) may authorize the release of funds to cover the costs of other reasonable and necessary repairs, replacements, or improvements that are not specified in the [Loan Documents](#) only if the [Loan Documents](#) permit the disbursements, and all conditions are fully satisfied.

2. Required Documentation for Disbursement

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

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

The [Borrower](#) requisition for the specified [Completion/Repairs](#) for which reimbursement is being sought must be accompanied by:

- a [Borrower](#) certification that the specific [Completion/Repairs](#) have been completed:
 - in a good and workmanlike manner;
 - in accordance with any plans and specifications previously approved by the [Servicer](#); and
 - in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the [Property](#);
- copies of invoices and evidence of payment for all items and materials purchased and all labor and services provided, the cost of which exceeds the lesser of \$25,000 or 1% of the [UPB](#); and
- a release of [Lien](#) from each contractor,



subcontractor, or materialman providing services or materials, the cost of which exceeds the lesser of \$25,000 or 1% of the UPB.

3. Disbursement of Funds (Excluding Final Disbursement)

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

- all **Completion/Repairs** covered by the requisition have been completed in a good and workmanlike manner, as evidenced by the **Borrower's** submission and, if appropriate, an inspection of the completed work (see guidance on inspections below);
- all related invoices for items and services covered by the requisition have been paid, unless the **Borrower** has satisfied any applicable conditions of the **Loan Documents** for issuance of a joint check(s), made payable to the **Borrower** and the **Person** owed funds under such invoices;
- no mechanics' **Liens**, materialmen's **Liens**, or other **Liens** exist, unless acceptably bonded over;
- no default exists under any **Loan Document**;
- for each **Green Rewards Efficiency Measure** disbursement, the **Efficiency Measure** was reported as:
 - compliant on the Green Rewards Verification Inspection Form (Form 4221) per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.03I: Green Rewards Efficiency Measure Verification; or
 - noncompliant, and Fannie Mae has approved and closed the remediation in DUS Property Monitor; and



- for a Green Rewards Mortgage Loan with a Solar PV System as an Efficiency Measure, Completion/Repair Escrow funds are only released after confirming commercial operation of the Solar PV System.

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

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

- funds are only released for Completion/Repairs that have been fully completed;
- the Servicer has complied with all other disbursement requirements;
- the Servicer completes an analysis showing that the remaining amount in the Completion/Repair Escrow is sufficient to complete all remaining Completion/Repairs;
- the Borrower affirms in writing its obligation to complete the remaining Completion/Repairs by the required completion dates; and
- the Completion/Repair Escrow is not for a Green Rewards Efficiency Measure that must be released per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 408.03I: Green Rewards Efficiency Measure Verification.

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



4. Final Disbursement of Funds

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

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

5. Maintenance of Servicing File

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

408.03F Inspections

1. Use of Third Party

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

2. When Periodic Inspections Are Required

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

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



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

3. When a Final Inspection Is Required

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

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

4. Confirming Completion/Repairs if Inspection Is Not Required

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

5. Documenting the Servicing File

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

408.03G Fees

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

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

408.03H Completion/Repair Defaults



1. Notification of Default to Fannie Mae

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

2. No Release of Funds to Borrower

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

408.03I Green Rewards Efficiency Measure Verification

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

1. Green Rewards Verification Inspection

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

2. Minimum Inspector Qualifications

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

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

Efficiency Measures	Description	Minimum Inspector Qualification
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Basic	<p>Simple upgrades such as:</p> <ul style="list-style-type: none"> • low-flow water fixtures; or • lighting improvements. 	<p>Servicer must ensure the inspector is either a qualified third-party or Servicer staff per Part V, Chapter 5: Surveillance, Section 502.03: Property Inspection Protocols and Part V, Chapter 5: Surveillance, Section 502.05: Property Inspector Qualifications.</p>
Complex	<p>Upgrades and changes to building systems, such as:</p> <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
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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 Account Requirements Custodial Accounts (16641) and the Loan Documents;
- ensure that all required deposits are made to the Replacement Reserve in accordance with the Loan Documents;
- process Borrower requisitions for funds in accordance with the terms and conditions of the Loan Documents;
- perform required inspections of completed work and, if appropriate, work in progress, and arrange, if necessary, for inspections by qualified professionals;
- ensure that work funded from the Replacement Reserve does not result in any mechanics' Liens, materialmen's Liens, or other Liens that have not been acceptably bonded over;
- promptly submit a Non-Monetary Default Borrower Request in the MAMP for any Replacement Reserve Loan Document default;
- take appropriate steps to remedy or address any default under the Loan Documents for Replacements, Repairs, or Restoration; and
- reassess the adequacy of the Replacement Reserve or the schedule of required deposits; and
- perform all other administrative duties required by the Loan



Documents for the Replacement Reserve.

408.04D Modifications to Replacement Reserve Deposits

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

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

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

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

408.04E New Property Condition Assessments

1. Timing and Waivers

A new **PCA** is required for:

- all **MAH Properties** every 5 years; or
- for any other **Mortgage Loan** with a term greater than 10 years, during the 10th **Loan Year**, and every 10



years thereafter, while the Mortgage Loan remains outstanding, or per the Loan Documents.

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

Remaining Loan Term	Servicer Delegation
Less than 1 Year	The new PCA may be waived for a Mortgage Loan with a: <ul style="list-style-type: none">• 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. Streamlined PCA Permitted



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

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

3. Delivery and Payment of Property Condition Assessment

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

408.04F When Replacement Reserve Funding Was Partially or Fully Waived

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

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

408.04G Interest on Replacement Reserve Funds

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

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

408.04H Items Eligible for Funding from the Replacement Reserve



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

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

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

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

408.04I Items Not Eligible for Funding from the Replacement Reserve

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

408.04J Processing Borrower Requisitions

1. General

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

2. Required Documentation



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

- the specific capital item replaced or major maintenance items for which reimbursement is being sought, and if any item is not specifically identified in the **Loan Documents**, an explanation of why the **Replacement Reserve** funds should be released for the item;
- the quantity and price of each type of capital item replaced (e.g., refrigerators);
- the quantity and price of all materials or parts (grouped by type or category) purchased; and
- the cost of all contracted labor or other services.

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

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

3. Disbursement of Funds

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

- all capital item replacements or major maintenance



items covered by the requisition have been completed in a good and workmanlike manner;

- all related invoices for capital items and services have been paid, unless the **Borrower** has satisfied any applicable conditions of the **Loan Documents** for issuance of a joint check, made payable to the **Borrower** and the **Person** owed funds;
- no mechanics' **Liens**, materialmen's **Liens**, or other **Liens** are outstanding that have not been acceptably bonded over; and
- the **Borrower** is not in default under any **Loan Document**.

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

4. Maintenance of Servicing File

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

408.04K Inspections

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

408.04L Fees

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

- a reasonable fee to cover the **Servicer's** routine costs of administering the **Replacement Reserve**; and
- additional fees to cover:
 - reasonable inspection costs, including the fees of any qualified professional used by the **Servicer**; and



- any other reasonable costs incurred in connection with collecting, holding, investing, or disbursing Replacement Reserve funds but which are not adequately covered by the general administrative fees collected from the Borrower.

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

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

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

408.04M Replacement Reserve Defaults

1. Notification of Default to Fannie Mae

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

2. No Release of Funds to Borrower

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

408.04N Return of Replacement Reserve Funds to Borrower

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

408.04O Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans

The Servicer may amend existing the Schedule 5 to Multifamily Loan Agreement - Replacement Reserve Schedule or Replacement Reserve Agreement on Fannie Mae's behalf to match the alternative Replacement Reserve funding available for newly originated



Mortgage Loans if the Borrower has a history of adequate property maintenance, and no other concerns are present (e.g., declining Property condition, declining rents, declining Net Cash Flow). The Servicer must send the executed Loan Document amendment revising the Replacement Reserve Schedule or Replacement Reserve Agreement to Multifamily Certification and Custody within 15 Business Days, and retain a copy in its Servicing File.

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

Section 409 Interest Rate Hedge Requirements

409.01 General

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

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

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

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

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



409.02 Interest Rate Hedge Coverage

409.02A Bond Credit Enhancement Transactions

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

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

409.02B Structured Transactions

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

409.02C All Hedges

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

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

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

409.03 Interest Rate Hedge Term

The Servicer must:

- monitor the term of each Interest Rate Hedge Agreement;



hold all escrowed funds for an Interest Rate Hedge in an account meeting the Custodial Account requirements of Part V, Chapter 3: Custodial Account Requirements Custodial Accounts (16641);

- engage the Borrower prior to expiration of each Interest Rate Hedge to ensure that an acceptable replacement Interest Rate Hedge is in place prior to its expiration; and
- perform any required functions with respect to the Interest Rate Hedge Agreement.

409.04 Lien Filings and Collateral

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

409.05 Borrower Payments

409.05A Interest Rate Caps

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

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

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

- notify the payee of the facts; and
- instruct the third party to withhold the payment to the
-



Borrower, and make payment to the **Servicer** to be held as additional collateral for the **Borrower's** obligations.

409.05B Interest Rate Swaps

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

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

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

409.06 Provider Ratings

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

409.07 Replacement Interest Rate Hedge and Notification

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



interest rate to a Bond Reset Interest Rate or fixed rate.

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

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

409.08 Replacement Interest Rate Hedge Documents and Follow Up

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

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

Section 410 Ground Leases

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

- ensure that the **Borrower** complies with all provisions of the **Loan Documents** that relate to the **Ground Lease**;
- if the **Ground Lease** payments are escrowed, collect



monthly payments from the **Borrower** to ensure sufficient funds will be available to pay the ground rents and any special payments required by the **Ground Lease**; and

- hold any escrowed ground rent payments with the **Borrower's** other T&I escrow funds in a T&I **Custodial Account** or a separate **Custodial Account** that meets all requirements of **Part V, Chapter 3: Custodial Account Requirements** **Custodial Accounts (16641)**.

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

Section 411

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

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

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



- occupancy;
- zoning and land use;
- health, fire, and building codes relating to immediately hazardous conditions; and
- illegal use of the [Property](#).

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

Section 412 Property Forfeitures and Seizures

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

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

Section 413 Property and Liability Insurance

413.01 Property and Liability Insurance

The [Servicer](#) must:

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



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

413.02 No Financing for Property and Liability Insurance Premiums

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

413.03 Flood Map Changes; Obtaining Flood Insurance

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

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

413.04 Lender Placed Insurance

413.04A Property and Liability Insurance

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

413.04B Flood Insurance



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

413.04C Servicer's Administrative Costs and Expenses

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

Section 414 Casualty Losses – Performing Mortgage Loans

414.01 Notice

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

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

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

414.02 Filing Proof of Loss

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

414.03 Casualty Loss Assessment

The **Servicer** must assess the extent and impact of any



damage caused by a casualty, and ensure that the **Borrower** appropriately addresses the damage.

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

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

414.04 Required Casualty Loss Property Inspection

The **Servicer** must inspect the **Property**, take photographs of the damage, and complete a Multifamily Catastrophic Loss Inspection



(Form 4261) if:

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

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

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

414.05 Documentation for Required Casualty Loss Property Inspections



After inspecting the Property, the Servicer must:

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

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

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

Fannie Mae

By: [Name of Servicer]

By: [Name of Servicer's Authorized Signer]

[Title of Servicer's Authorized Signer].

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

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

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

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



If the insurance loss draft or check is not made payable to either Fannie Mae or the **Servicer**, the **Servicer** must return it to the insurance carrier and request the loss draft or check be reissued in the name of Fannie Mae and sent to the **Servicer**. If the check has already been cashed by the **Borrower**, the **Servicer** must demand those funds be either paid by the **Borrower** to the **Servicer** and/or deposited in a **Custodial Account** meeting the requirements of **Part V, Chapter 3: Custodial Account Requirements** **Custodial Accounts (16641)**.

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 Account Requirements** **Custodial Accounts (16641)**, 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**;
- copies of invoices and evidence of payment for all items and materials purchased and all labor and services provided, the cost of which exceeds the lesser of \$25,000 or 1% of the **UPB**;
- a release of **Lien** from each contractor, subcontractor, or materialman providing services or materials, the cost of which exceeds the lesser of \$25,000 or 1% of the **UPB**; 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;
- [Completion/Repair Agreement](#) extensions;
- changes to the monthly [Replacement Reserve](#) deposits;
- administering escrow accounts; and
- administering [Collateral Agreements](#).

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

416.03 Approval Requests

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

416.04 Release and Substitution Requests

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



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

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

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



Structured Acquisitions.

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

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

416.05 Borrow-Up (Future Advance) Requests

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

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

- the **Servicer's** summary of the **Borrower's** Borrow-Up request and its recommendation for approval;
- any waiver requests and the **Servicer's** recommendation for approval of each waiver;
- the amount of the Borrow-Up and the supporting underwriting spreadsheets and calculations (calculated per the terms of the **Master Credit Facility Agreement** and other **Loan Documents**);
- when the **Borrower** expects the Borrow-Up to close;
- whether the **Property** meets all conditions and compliance tests (e.g., **LTV**, **DSCR**, geographic/asset concentration) for a Borrow-Up per the applicable **Loan Documents**;
- a quote sheet;
- a Sources and Uses statement;
- any **Interest Rate Hedge** requirements;
- for a **Credit Facility**, the remaining **Allocable Facility Amount** balance of the **Credit Facility** and each **Property**



after the Borrow-Up;

- itemized Borrow-Up fees associated with the transaction;
- the Structured Facilities Monitoring Spreadsheet (Form 4802) showing the Mortgage Loan level and collateral level data for the Structured Transaction both before and after the release/substitution occurs;
- third party reports; and
- any other items required by the Loan Documents.

416.06 Facility Revaluations

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

416.07 Supplemental Mortgage Loans Not Permitted

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

416.08 Additional Information

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

Section 417 Seniors Housing Properties

417.01 General



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

417.02 Decisions and Actions Delegated and Not Delegated

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

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

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

417.03 Approval Requests

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



documents), and the **Servicer's** analysis supporting its recommendation.

417.04 Seniors Housing Expansion/Conversion Requests

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

417.04A Permitted Purpose

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

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

417.04B Submission Requirements

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

- **Sponsor** name and experience in operating seniors housing properties;
- **Mortgage Loan** performance;
- financial performance (including **NCF** and **UPB** history, and **DSCR** and **LTV** trends);
- pro forma financial statements;



- sources/uses of funds statement;
- project budget, scope, and plans;
 - market study;
 - construction contract and timeline;
 - Servicer's monitoring plan;
 - licensure issues;
 - insurance; and
 - general contractor and major subcontractors.

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

417.04C Requirements and Monitoring

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

- Escrow:
 - the Borrower must escrow 25% of the estimated construction costs with the Servicer, who will administer the funds through a standard construction draw process; and
 - the Borrower must demonstrate to the Servicer's satisfaction that it has sufficient liquid assets to complete the construction;
- Minimum DSCR during the expansion/conversion period cannot fall below 1.15x;
- Completion of construction must occur no later than 18 months from the date of commencement;
- Construction monitoring requirements will be set forth in the approval letter;
- Fannie Mae will charge a construction monitoring fee which does not cover the expenses associated with third-party inspections;
- Completion Guaranty (Form 6018, Form 6632, or Form 6633) and, if determined applicable by Fannie Mae, an
- Agreement and Assignment Regarding General



Contractor's Contract (Form 6473), and an Omnibus Assignment of Contracts, Plans, Permits, and Approvals (Form 6473), will be required;

- Fannie Mae will charge a change in use fee, and the Servicer may charge additional fees at its discretion, subject to approval by Fannie Mae;
- The Borrower must reimburse all legal costs incurred by Fannie Mae; and
- A fixed-price general construction contract provided by a general contractor, together with a payment and performance bond issued by an acceptable surety, will be required.

417.04D Construction Completion Requirements

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

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



- meet the local zoning and planning restrictions, and all other governmental requirements;
- final inspection of completed **Improvements**;
- updated certified operating statement and rent roll for the **Seniors Housing Property**; and
- a survey showing any new **Improvements** on the **Seniors Housing Property**.

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

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

Section 418 Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties

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 Account Requirements](#) [Custodial Accounts \(16641\)](#).

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 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

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 on-going compliance with the Loan Documents;
- if the Tenant Site Lease Protections were implemented within the MH Community's rules and regulations, confirm:
 - the rules and regulations contain all Tenant Site Lease Protections and are publicly posted in the MH Community; and
 - each MH Site Lease tenant received written notice of all Tenant Site Lease Protections added to the rules and regulations;
- if the Tenant Site Lease Protections were implemented within the MH Site Lease:
 - confirm the MH Site Lease form includes:
 - all Tenant Site Lease Protections; and
 - the required percentage of MH Site Leases (i.e.,



25%, 50%, or 100%) are covered by the [Tenant Site Lease Protections](#); and

- annually audit at least 25% of the minimum percentage of [MH Site Leases](#) required per the [Loan Documents](#) (i.e., 25%, 50%, or 100%) to ensure all [Tenant Site Lease Protections](#) are included;
- determine whether the [Borrower](#) complied with all terms of the [Tenant Site Lease Protections](#) (e.g., the [Borrower](#) only raised [MH Site Lease](#) rents after required notice);
- retain the review of the [Borrower's](#) certification and audit results in the [Servicing File](#); and
- notify [Multifamily Loss Mitigation](#) if the [Borrower](#) fails to certify compliance, or the [MH Site Lease](#) audit discloses potential noncompliance.

Section 420 Single Asset Entity Conversion

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

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

Section 421 Loan Document Amendments

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

- align with the approved terms for a [Supplemental Mortgage Loan](#); or
- cross-default and/or cross-collateralize the [Portfolio](#)



Mortgage Loan with a subsequent Mortgage Loan.

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

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

Section 422 Maturing Mortgage Loans

422.01 Written Policy

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

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

422.02 Refinance Eligibility

On a monthly basis, beginning at least 24 months before each Mortgage Loan's Maturity Date, the Servicer must evaluate the Property's operating performance to determine the likelihood that the Mortgage Loan UPB can be refinanced based on the current cap rate,



and the **DSCR** and **NCF** from the **Property's** most recent annual financial statement.

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

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

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

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

422.03 Borrower Communications

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

- 18 months before the **Mortgage Loan Maturity Date**, send the first maturity notification letter notifying the **Borrower** of the upcoming **Maturity Date** (18 Month Notice to Borrower – Choice Refinance Loans (Form 4217)).
- 12 months before the **Mortgage Loan Maturity Date**, send the applicable second maturity notification letter (12 Month Notice to Borrower Marketing Oriented – Choice Refinance Loans (Form 4218) or 12 Month Notice to Borrower – In Place Loans (Form 4219)):
 - notifying the **Borrower** of the upcoming **Maturity Date**;
 - providing **Servicer** contact information; and
 - requesting a detailed payoff plan.



- 6 months before the **Mortgage Loan Maturity Date**, send the 6 Month Notice to Borrower – In Place Loans (Form 4220):
 - notifying the **Borrower** of the upcoming **Maturity Date**;
 - requesting proof of a payoff plan (e.g., a commitment letter from another lender or sale contract); and
 - advising the **Borrower** that the **Mortgage Loan** will be in default if not paid off or refinanced.

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

422.04 Fannie Mae Communications

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

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

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

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



Chapter 7 Non-Performing Mortgage Loans

Section 701 Generally

This Chapter sets forth the policies, procedures and standards for servicing [Non-Performing Mortgage Loans](#) through the default resolution process. The provisions of this Chapter apply, unless otherwise noted, to both [Secondary Risk Mortgage Loans](#) and [Primary Risk Mortgage Loans](#).

Fannie Mae requires that, at a minimum, each [Servicer](#) offer the same standard of care to its Fannie Mae portfolio as it would its own portfolio. Subject to this Chapter, the [Servicer](#) must aggressively pursue collection of all amounts due from [Borrowers](#) under the [Loan Documents](#) to minimize losses. To that end, this Chapter sets forth the roles, duties and responsibilities of the various groups within Fannie Mae, the [Servicer](#), and, if applicable, the [Special Servicer](#) charged with resolving delinquencies and defaults in the most efficient and expeditious manner.

The party performing the loss mitigation actions, as outlined in this Chapter 7, is referred to as the "[Special Servicer](#)". The [Special Servicer](#) will either be the [Lender](#), Fannie Mae, or a contract [Special Servicer](#) for the [Lender](#) or Fannie Mae, as permitted by this [Guide](#). In this Chapter, any reference to the respective rights or duties of the [Lender](#) or Fannie Mae, as the [Special Servicer](#), shall also apply to any approved contract [Special Servicer](#) for the [Lender](#) or Fannie Mae; however, it is the [Lender's](#) responsibility to ensure that any actions taken in its behalf by a contract [Special Servicer](#) fully comply with the requirements of this [Guide](#).

The requirements set forth in this Chapter represent only the minimum requirements that Fannie Mae expects from the [Servicer](#). Unusual circumstances may require the [Servicer](#) to perform additional servicing duties as directed by Fannie Mae. Fannie Mae requires a high standard of delinquent [Mortgage Loan](#) servicing. Failure to service in accordance with that standard may result in Fannie Mae's exercise of its remedies as set forth in the [Guide](#) and the [Lender's Contract](#).



In the event of a conflict between this Chapter, the Lender's Contract, the Transaction Documents, and the Loan Documents, the following is the order of priority regarding governing provisions: (1) Loan Documents, (2) Transaction Documents, (3) Lender's Contract, and (4) this Chapter. To the extent not in contradiction with the Loan Documents, the Lender's Contract or the Transaction Documents, the requirements of this Chapter must be satisfied.

Section 702 Secondary Risk Mortgage Loans and Primary Risk Mortgage Loans

702.01 Generally

For certain Lenders, the Lender's Contract with Fannie Mae will specify which party has all of the risk of loss on the Mortgage Loan, or if the Lender and Fannie Mae share the loss. In some Lender Contracts, the Mortgage Loans may be Secondary Risk until the Lender's recourse obligation is deemed exhausted after which the Mortgage Loans will become Primary Risk.

702.02 Secondary Risk Mortgage Loans

702.02A Definition

A Mortgage Loan is considered a Secondary Risk Mortgage Loan when all losses incurred on such Mortgage Loan are contractually borne by the Lender until the Lender's specified recourse obligation is deemed exhausted. This obligation to bear all losses is sometimes referred to as a "Top Loss" obligation. Because Secondary Risk Mortgage Loans will convert to Primary Risk Mortgage Loans upon the deemed exhaustion of the Lender's obligation, Fannie Mae and the Servicer must work together to accurately track amounts for any losses that may have occurred.

702.02B Lender is Special Servicer

For all Secondary Risk Mortgage Loans, the Lender, or its approved contract servicer, will be the Special Servicer. The Special Servicer will be required to submit to Fannie Mae a Servicer Workout Action Template ("SWAT") (Form 4810) for all Secondary Risk Mortgage Loans as more particularly provided in Part V, Chapter 7:



Non-Performing Mortgage Loans, Section 708.02: Servicer Workout Action Template (“SWAT”).

702.02C Deemed Exhaustion of Recourse Obligation

When the cumulative approved realized losses plus Potential Losses under a **Secondary Risk Lender Contract** equal or exceed 90% of the **Lender's** recourse obligation under that **Contract**, the **Lender's** recourse obligation under the **Contract** will be deemed to be exhausted and the remaining **Mortgage Loans** serviced under that **Contract** will be deemed to be **Primary Risk Mortgage Loans**. Fannie Mae will provide notice in writing to the **Servicer** at the time of such re-designation. Re-designation of a **Mortgage Loan** from **Secondary Risk** to **Primary Risk** does not relieve the **Lender** of its remaining recourse obligation.

Fannie Mae's estimate of Potential Losses will be calculated as follows:

- the value of each **Property** (as provided below) securing all then-delinquent **Mortgage Loans**, less
- the **UPB** of all then-delinquent **Mortgage Loans**, plus
- estimated expenses to pursue a foreclosure **Course of Action** for all then-delinquent **Mortgage Loans**.

The value of the **Property** shall be calculated as follows:

- 90% of the **Property** value of each **Property** securing each such delinquent **Mortgage Loan** if the value is established by an appraisal or broker's opinion of value dated six (6) months or less prior to incurring the Potential Loss, or
- 60% of the most recent **Property** value of each **Property** securing each such delinquent **Mortgage Loan** if the value is established by an appraisal or broker's opinion of value dated more than six (6) months prior to incurring the Potential Loss.

702.03 Primary Risk Mortgage Loans Defined

702.03A Definition

A **Mortgage Loan** is considered a **Primary Risk Mortgage Loan** when Fannie Mae bears all losses on the **Mortgage Loan** or when the **Lender** and Fannie Mae share the losses on the **Mortgage Loan**. All



Mortgage Loans delivered under the DUS and Aggregation product lines and certain other Mortgage Loans where Fannie Mae either bears all the risk of loss or shares in a portion of the risk of loss are Primary Risk Mortgage Loans.

702.03B Fannie Mae is Special Servicer

For all Primary Risk Mortgage Loans, Fannie Mae, or its contract servicer, will be the Special Servicer.

Section 703 Mortgage Loan Defaults

703.01 Anticipatory Defaults

When a Borrower indicates to the Servicer that it is no longer willing or able to continue to make its debt service or other payment obligations as required by the Loan Documents or to perform acts that are required by the Loan Documents, the Servicer must notify its Fannie Mae Representative immediately. The Servicer and Fannie Mae will determine whether such future non-performance is inevitable and whether to treat such a potential breach as immediate and, if repudiatory, to seek immediate relief.

703.02 Performance Defaults

703.02A Failure of Borrower to Perform

The Loan Documents will provide acts of the Borrower that are required to be performed, the failure of which may be designated as an event of default. There may be grace periods for curing such a default. The Servicer must provide written notice of the default to Fannie Mae and to the Borrower as required in the Loan Documents. The Servicer must diligently pursue the Borrower's cure thereof within the time permitted. If the Borrower fails to cure the default within the time provided in the Loan Documents to effect such a cure, a Performance Default has occurred. Depending on the severity of the Performance Default, Fannie Mae may permit the Servicer to monitor the default per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703.02C: Lender Tenders for Minor or Immaterial Defaults.

703.02B Service of Process

Often, the Lender, Servicer, or Fannie Mae become aware of a



Performance Default through receipt of a complaint, petition, or similar legal document in connection with a lawsuit. While the Servicer has the duty to provide notices of default to the Borrower, neither the Lender nor the Servicer is authorized to accept service of process on behalf of Fannie Mae. Fannie Mae's Legal Department in Washington, DC must accept service of process for Fannie Mae related to any Mortgage Loan or Property.

703.02C Lender Tenders for Minor or Immaterial Defaults

1. Primary Risk Mortgage Loans

In some instances, for minor or relatively immaterial defaults (like materialmen and mechanics' liens) on Primary Risk Mortgage Loans, Fannie Mae will elect to tender the Performance Default to the Servicer to monitor, engage legal counsel as necessary, and otherwise protect Fannie Mae's security interest in the Property. These "Lender Tenders" will be monitored and special serviced by the Servicer using its customary standard of care for similar Performance Defaults in its own portfolio.

2. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, all of the monitoring and special servicing activities for minor or relatively immaterial defaults will be performed by the Servicer.

3. Lender Tenders Not Subject to Requirements of this Chapter

Lender Tenders are not subject to the terms of this Chapter.

703.03 Monetary or Payment Defaults

Payments under the Note evidencing the Mortgage Loan are due on the first day of the month or such other date as may be specified in the Note. Typically, there is no grace period for making payments and payments made after the scheduled due date are past due even if late charges do not attach until some days later. If the Borrower fails to pay monies when due, whether the obligation arises under the Note or other Loan Document, a Monetary or Payment Default has occurred.

703.04 Date of Default

703.04A Definition of Date of Default



The **Date of Default** is the date of the initial **Payment Default** or **Performance Default**.

703.04B Definition of Non-Performing Mortgage Loan

After the **Date of Default** and until the default is cured, the **Mortgage Loan** is considered a "Non-Performing Mortgage Loan."

703.04C Partial Payments by Borrower Do Not Change Date of Default

For purposes of computing the time period for initiating the Dual Track Approach and electing a **Course of Action** as described in this Chapter, partial payments made by the **Borrower** for monies due under the **Note** or other **Loan Document** does not advance forward the **Date of Default**. The last paid installment ("LPI") is the accounting term for indicating the due date of the last payment received. Partial payments may be received over time that advance the LPI date, but the **Date of Default** of the initial **Payment Default** or **Performance Default** will not change.

Per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704.02: Partial Payments; Late Payments, before the **Servicer** is permitted to apply any partial payment to advance the LPI date, the **Servicer** must first obtain direction from Fannie Mae **Special Asset Management**. Fannie Mae may, at its option, require the **Servicer** to hold all such partial payments in suspense and not advance the LPI date until the **Borrower** has paid all amounts necessary to cure all **Payment Defaults**.

703.05 Late Charges and Default Interest

703.05A Timing for Imposition of Late Charges and Default Interest

The imposition of late charges and default interest must be made in accordance with the amounts and at such time as specified in the **Note** or other **Loan Document**.

703.05B Late Charges and Default Interest

1. Late Charges

Unless otherwise provided in the **Lender Contract**, all late charges are wholly retained by the **Servicer**. Any decision to waive the collection of late charges payable to the **Servicer** rests with the **Servicer**.



2. Default Interest

Unless the Lender's Contract specifies otherwise, so long as the Servicer is making Delinquency Advances, the Servicer is entitled to retain that portion of the Mortgage Loan interest rate charged to the Borrower that is attributable to the default and intended to be added to the stated Mortgage Loan interest rate. If the Servicer is not making Delinquency Advances, no amount of the default interest component may be retained by the Servicer. Without regard to whether the Servicer is making Delinquency Advances, Fannie Mae is always entitled to the interest that accrues at the stated Mortgage Loan interest rate.

703.05C No Deduction for Late Charges or Default Interest

Late charges and default interest may not be deducted by the Servicer from the Borrower's P&I payments, T&I deposits, or Collateral Agreement deposits.

703.05D Enforceability of Late Charges and Default Interest

The enforceability of late charges and default interest may depend on the law in the Property jurisdiction. The Servicer must determine, based on the facts and circumstances of any transaction and their legal counsel's advice, whether any such charges are enforceable in the Property jurisdiction prior to making demand.

Section 704 Notice of Default; Reservation of Rights

704.01 Notice of Default

704.01A Notice to Fannie Mae of Payment Default

Using the Multifamily Delinquency System, the Servicer must advise Fannie Mae of a Payment Default or a Performance Default on or before the 17th day of the month (or on the next Business Day if the 17th is not a Business Day) in which the Payment Default occurs or is discovered.

704.01B Notice to Fannie Mae of Performance Default

By written notice to its Fannie Mae Representative (Multifamily Loss Mitigation for Primary Risk Mortgage Loans, and Maturity Management Top Loss for Secondary Risk Mortgage Loans), the



Servicer must advise Fannie Mae of certain Performance Defaults as provided in this Section. Notice of a Performance Default must be given to Fannie Mae:

- within five (5) days after the Servicer becomes aware of the Performance Default; or
- if the Loan Documents permit a cure period after the Borrower receives written notice of its default or failure to perform any act under the Loan Documents, then within five (5) days after the Borrower's cure period has expired and a Performance Default has occurred. The Servicer shall provide any such notice of the Performance Default to the Borrower per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703.02: Performance Defaults.

If the Borrower's default or failure to perform any act under the Loan Documents has been excused by a waiver given by the Servicer (if permitted pursuant to this Guide) or by Fannie Mae, such default or non-performance is not considered a Performance Default.

After having given Fannie Mae notice of a Performance Default, the Servicer should provide updates at least monthly to its Fannie Mae Representative, to advise of status of the default and the steps being taken by the borrower to cure the Performance Default.

704.01C Types of Performance Defaults

The following Performance Defaults must be reported by the Servicer, as provided in this Section; however, to the extent the Servicer believes that a Performance Default not listed below is material to the Borrower's ability to perform under the Mortgage Loan, or the value of the Mortgage Loan or the Property, the Servicer should report that Performance Default as well:

1. Unauthorized Transfers

To the extent not approved in accordance with Part V, Chapter 4: Asset Management: Loan Document Administration, Section 418: Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties, any transfers identified as a Transfer/Assumption in Part V, Chapter 4: Asset Management: Loan Document Administration, Section 418: Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties, unless such type of transfer is permitted under the applicable Loan Agreement or Security Instrument for the Mortgage Loan.



2. Completion/Repair Defaults

The **Borrower's** failure to complete required repairs in the aggregate in excess of the lesser of \$50,000 or 10% of current UPB under a Loan Agreement, a **Completion/Repair Agreement**, a **Replacement Reserve and Security Agreement**, or any other **Loan Document** or agreement binding upon the **Borrower**.

3. Mechanics', Materialman's or Judgment Liens

The **Borrower's** failure to release or bond off a mechanics', materialman's or judgment lien that has been filed against the **Property**.

4. Failure to Maintain Insurance

The **Borrower's** failure to maintain all insurance coverages as required by **Part II, Chapter 5: Property and Liability Insurance** and the applicable **Loan Agreement** or **Security Instrument** for the **Mortgage Loan**.

5. Failure to Maintain the Property

The **Borrower's** failure to maintain the **Property** as required by the applicable **Loan Agreement** or **Security Instrument** for the **Mortgage Loan**, as evidenced by outstanding code violations or municipal code enforcement actions pending against the **Property** for immediately hazardous conditions (such as inadequate fire exits, rodents, lead-based paint, lack of heat, hot water, electricity, or gas, etc.), uninhabitable units on the **Property**, the failure to promptly make repairs to the **Property** following a casualty loss, demolition of **Improvements** on the **Property**, or waste or abandonment of the **Property** or its **Improvements**. For purposes of reporting under **Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704.01: Notice of Default**, "uninhabitable units" do not include a unit where a tenant has vacated and the unit is being made ready, so long as the **Borrower** is promptly addressing the condition of the vacated unit and in the process of making it ready for leasing.

6. Change in Use

The **Borrower's** alteration of the **Property** or change in use, unit mix or other characteristics of the **Property**, or converting any individual dwelling unit to commercial use, or initiating or acquiescing to a change in the zoning classification of the **Property**, or establishing any condominium or cooperative regime with respect to the **Property**, or subdividing the **Property**, without Fannie Mae approval as required by the **Loan Documents**.

7. Environmental Conditions



The Borrower's failure to comply with its Operations and Maintenance ("O&M") Agreement for the Property, or the existence of any environmentally hazardous materials that would constitute a Prohibited Activity or Condition under the Loan Agreement, Security Instrument, or other Loan Documents.

8. Noncompliance with Laws

Any violation of laws, ordinances or regulations by the Borrower and/or the Property, as required by Part V, Chapter 3: Custodial Account Requirements, Section 306: Interest-Bearing Accounts Investments and Interest (16676).

704.01D Contact with Borrower

The Servicer must contact the Borrower as provided in this Chapter to determine why the payment has not been made and whether the payment will be made before the end of the month. The Servicer must continue to update the Multifamily Delinquency System on its discussions with the Borrower until the Mortgage Loan has been transferred to the Special Servicer (either Fannie Mae for Primary Risk Mortgage Loans, or the Servicer's special servicing area for Secondary Risk Mortgage Loans).

704.01E Pre-Negotiation Letter

1. Execution

Prior to entering into any discussions with a Borrower regarding an anticipatory default (per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 703.01: Anticipatory Defaults) or after the Mortgage Loan has been transferred to the Special Servicer and prior to any further discussions with the Borrower regarding the Non-Performing Mortgage Loan and possible resolution of the default, the Borrower, Fannie Mae (if a Primary Risk Mortgage Loan), the Servicer (if a Secondary Risk Mortgage Loan) or the Lender (if the Lender has loss sharing and is not also the Servicer) must execute and send to the Borrower a written Pre-Negotiation Form Letter (NOI and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter (Form 4812).

2. Purpose of Pre-Negotiation Letter

The purpose of the Pre-Negotiation Letter is for all parties to acknowledge in writing that any discussions relating to resolution of the default are not binding on any party until the discussions are



documented in a written agreement executed by all parties. Use of the Pre-Negotiation Letter minimizes the risk of a liability claim against Fannie Mae or the **Servicer** that the **Borrower** acted in reliance on a verbal representation by Fannie Mae or the **Servicer**.

704.02 Partial Payments; Late Payments

704.02A Partial Payments

If the **Borrower** makes a partial payment, within five (5) business days after receipt of the partial payment the **Servicer** must send a letter to the **Borrower**, under the **Servicer's** letterhead, the Multifamily Partial Payment Letter – Fees (Optional) Assessed (Form 4806).

704.02B Late Partial Payment

If the **Borrower** makes a late and partial payment, within five (5) business days after receipt of the late and partial payment the **Servicer** must send to the **Borrower**, under the **Servicer's** letterhead, the Multifamily Partial Payment Letter – Fees (Optional) Assessed (Form 4806).

704.02C Full Payment After Expiration of Period Before Assessing Late Charges

If the **Borrower** makes a full payment after the date late charges are assessed, upon receipt of such payment the **Servicer** must send within five (5) business days the **Borrower**, under its letterhead, the Multifamily Late Payment Letter – Fees (Optional) Assessed (Form 4805).

If the amount of the payment received from the **Borrower** is not sufficient to cure all Monetary Defaults, the **Servicer** shall obtain direction from Fannie Mae **Special Asset Management** prior to applying the amount to past-due payments and advancing the LPI date. Fannie Mae may, at its option, require the **Servicer** to hold any such payments received in suspense until the **Borrower** has paid all amounts necessary to cure all Monetary Defaults.

704.02D Application of Partial Payments

If the amount of the payment received from the **Borrower** is not sufficient to cure all Monetary Defaults, the **Servicer** shall obtain direction from Fannie Mae **Special Asset Management** prior to applying



the amount to past-due payments and advancing the LPI date. Fannie Mae may, at its option, require the Servicer to hold any such payments received in suspense until the Borrower has paid all amounts necessary to cure all Monetary Defaults.

704.02E Failure to Make Any Payment

If the Borrower fails to make any payment at all, within five (5) business days following the date late charges are incurred the Servicer must send to the Borrower, under the Servicer's letterhead, the Multifamily No Payment Received Letter – Fees (Optional) Assessed (Form 4807).

704.02F Copies of Letters Sent to Borrower; Correspondence with Borrower

The Servicer must send to its Fannie Mae Representative a copy of any letter sent to the Borrower pursuant to this Chapter at the same time as it sends such letter to the Borrower. After outside counsel is engaged, any correspondence with the Borrower related to the Payment Default or Performance Default, or the Course of Action, must be made by or through the outside counsel.

Section 705 Capital Repairs and Protection of Property and Property Income

705.01 Funding Capital Repairs During Default Resolution

705.01A Generally

It is not unusual for a Property securing a Non-Performing Mortgage Loan to be in need of repairs during the default resolution process. Generally, a Payment Default or a Performance Default will result in a default under the Collateral Agreements for Replacement Reserves, Operating Deficit, Completion/Repairs, or other Collateral Agreements. When the Borrower is in default under a Collateral Agreement, the Special Servicer has discretion in applying the reserves or Letter of Credit proceeds either to repairs or replacements or to the payment of amounts due and owing to Fannie Mae under the Loan Documents.

1. Primary Risk Mortgage Loans

As part of its Asset Review for Primary Risk Mortgage Loans, as provided in this Chapter, the Servicer must advise Fannie Mae



Special Asset Management of the type of repairs or replacements that are necessary and recommend whether the repairs should be funded from the Collateral Agreement funds. It is Fannie Mae's decision whether or not to accept the recommendation and use the funds for repairs or replacements for Primary Risk Mortgage Loans.

2. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Lender must provide a SWAT describing the actions it intends to take to ensure the repair of the Property and to prevent further Property deterioration. The decision whether or not to use Collateral Agreement funds for repairs or replacements is the Special Servicer's. When making the decision whether to use the Collateral Agreement funds for repairs or replacements, the level of cooperation from the Borrower and remitting the monthly net operating income must be a factor to consider.

705.01B Health and Safety Repairs

If in inspecting the Property securing the Non-Performing Mortgage Loan, it is apparent that the Borrower is not making repairs related to the health and safety of the tenants or is allowing the physical condition of the Property to deteriorate, then:

- for Primary Risk Mortgage Loans, the Servicer must immediately notify Fannie Mae Special Asset Management and, if the Mortgage Loan has been transferred to Fannie Mae Special Asset Management for special servicing, Fannie Mae may elect to engage outside counsel to pursue the court appointment of a receiver, as well as enforce other rights and remedies; or
- for Secondary Risk Mortgage Loans, the Lender must provide a SWAT describing the actions it intends to take to ensure the repair of the Property and to prevent further Property deterioration.

THE SERVICER MUST NOT ATTEMPT TO MAKE THE REPAIRS, HIRE CONTRACTORS TO MAKE THE REPAIRS, OR OTHERWISE TAKE ANY ACTION THAT COULD RESULT IN A MORTGAGEE-IN-POSSESSION STATUS.

705.02 Protection of Property Income



For all **Non-Performing Mortgage Loans**, if the **Borrower** is not accounting for and paying to the **Servicer** the monthly net operating income from the **Property** after the **Date of Default**, then:

- for all **Primary Risk Mortgage Loans** the **Servicer** must notify **Fannie Mae Special Asset Management** as part of the **Asset Review** or otherwise; or
- for all **Secondary Risk Mortgage Loans**, the **Special Servicer** must provide in the **SWAT** the actions it intends to take to obtain control of the net operating income.

705.03 Property Management Changes

705.03A Primary Risk Mortgage Loans

For **Primary Risk Mortgage Loans**, any proposed changes in the property management for **Property** securing a **Non-Performing Mortgage Loan** must be approved in writing by **Fannie Mae Special Asset Management**.

705.03B Secondary Risk Mortgage Loans

For **Secondary Risk Mortgage Loans**, the recommendation to change the property management for **Property** securing a **Non-Performing Mortgage Loan** must be included in the **SWAT**.

705.03C Approval Decision Criteria and Timing

The decision to approve the replacement property management must focus on, among other customary underwriting criteria, identifying conflicts of interest between the proposed **Property Manager** and **Fannie Mae**, as well as evaluating the **Property Manager's** ability to maintain the **Property's** physical condition and improve operating income.

Fannie Mae will communicate its approval or rejection of the proposed replacement of the property management within thirty (30) days after receipt from the **Servicer** of all information necessary to render its decision. **Fannie Mae's** approval may be conditioned upon receiving additional documentation or the satisfaction of additional requirements. If **Fannie Mae** has not approved or conditionally approved the proposed replacement property management within thirty (30) days after the **Servicer's** request, the proposed change in property management will be deemed to be denied by **Fannie Mae**.



705.03D Documenting the Property Management Change

Unless the change in property management is through a court-appointed receiver, the **Servicer** must send an original Assignment of Management Agreement (**Form 4508**) for the proposed new property management company executed by the **Borrower** and information regarding the new property management company to Fannie Mae **Special Asset Management** to effect a change in **Property** management.

Section 706 Reinstatement; Calculation of Payoff Amount

706.01 Reinstatement

706.01A Primary Risk Mortgage Loans

For **Primary Risk Mortgage Loans**, if the **Borrower** offers to reinstate a **Non-Performing Mortgage Loan** at any time after the **Mortgage Loan** has been transferred to Fannie Mae **Special Asset Management**, the **Servicer** must notify Fannie Mae **Special Asset Management** in writing. Fannie Mae will make the determination of whether to allow reinstatement of the **Non-Performing Mortgage Loan**.

706.01B Secondary Risk Mortgage Loans

For **Secondary Risk Mortgage Loans**, if the **Borrower** offers to reinstate a **Non-Performing Mortgage Loan** at any time after a **SWAT** has been provided to Fannie Mae, the **Servicer** (if not the **Lender** with the risk of loss) will notify the **Lender** in writing and the **Lender** will make the determination of whether to allow reinstatement, subject to applicable law, and provide an updated **SWAT** to Fannie Mae.

706.02 Calculation of Payoff Amount

For either **Primary Risk Mortgage Loans** or **Secondary Risk Mortgage Loans**, if in the course of performing loss mitigation actions the **Special Servicer** requires a computation of the payoff amount for the **Mortgage Loan** (e.g., for a demand letter to **Borrower** after acceleration, preparation of litigation pleadings for foreclosure judgment or deficiency suit, determination of foreclosure bid, etc.), the **Servicer** shall calculate the full payoff amount and submit it for Fannie Mae's confirmation in accordance with **Part V, Chapter 2: Reporting and Remitting, Section 214.03: Calculating and Obtaining Confirmation of Payoff Amount**. In



those instances, if there is not an actual payoff of the Nonperforming Mortgage Loan expected, the anticipated foreclosure date or the “as of” date for the payoff shall be used as the “payoff date” in the calculation. In addition, the Servicer’s request for verification of the payoff amount must be submitted to Fannie Mae for confirmation at least two (2) business days before such payoff amount is needed by the Special Servicer or outside counsel for its demand letter, litigation pleadings, or other use.

Section 707 Non-Performing Primary Risk Mortgage Loans – Transfers to Fannie Mae Special Asset Management

707.01 Transfer to Special Servicing

At any time during the first 60 days after the Date of Default, a Non-Performing Primary Risk Mortgage Loan may be transferred to Fannie Mae Special Asset Management, to be the Special Servicer, if the Servicer or Fannie Mae determines that the Borrower is either not cooperating with attempts to resolve the default or it becomes apparent the Borrower will not be able to cure the default. Fannie Mae reserves the right to require any Non-Performing Primary Risk Mortgage Loan be transferred to Fannie Mae Special Asset Management prior to the 60th day after the Date of Default.

Any Non-Performing Primary Risk Mortgage Loan not previously transferred to Fannie Mae, as the Special Servicer, must be transferred to Fannie Mae Special Asset Management no later than the 60th day after the Date of Default.

707.02 Asset Review

At the time of the transfer of the Non-Performing Primary Risk Mortgage Loan to Fannie Mae for special servicing, in addition to the Servicing Transfer Memo prepared by the Servicer in accordance with Part V, Chapter 7: Non-Performing Mortgage Loans, Section 709.02: Servicing Transfer Memo, the assigned asset manager for Fannie Mae Special Asset Management and the appropriate representatives of the Servicer will engage in a discussion to determine what documents or additional due diligence may be required to review the status of the Non-Performing Mortgage Loan or the Property. This Asset Review may include:

- the delivery of copies of the Loan Documents to Fannie Mae;



- the review of the third-party reports obtained by the Lender prior to the origination of the Mortgage Loan;
- the review of the Underwriter's Narrative, the Transaction Approval Memo or other underwriting analyses and materials of the Lender related to the Non-Performing Mortgage Loan;
- the review of various other third-party reports, analyses, studies, proposals or other documents obtained by Fannie Mae or the Servicer subsequent to the origination of the Non-Performing Mortgage Loan;
- obtaining additional third-party reports (including Property appraisal, environmental study or PCA), studies or proposals; or other documents or due diligence related to the Non-Performing Mortgage Loan; or
- assessing the Borrower or Key Principal's financial condition, the operations of the Property, or the current market value and condition of the Property.

Section 708 Non-Performing Secondary Risk Mortgage Loans – Special Servicing

708.01 Servicer Performs Loss Mitigation Actions

For Secondary Risk Mortgage Loans, the Lender shall be the Special Servicer to perform all approved loss mitigation actions to be taken under the Dual Track Approach as described in this Chapter, including selecting and implementing a Course of Action for resolution of the Non-Performing Mortgage Loan.

708.02 Servicer Workout Action Template (“SWAT”)

708.02A Delivery of SWAT

The Special Servicer must submit to Fannie Mae Special Asset Management a SWAT for review and approval not later than:

- 60 days after the Date of Default for any Payment Default; or
- 15 days after the Maturity Date if the Borrower fails to pay off the Mortgage Loan on or before the Maturity Date.



It is expected that the **Special Servicer** has collected the necessary data and documentation to prepare its loss mitigation plan for the **Non-Performing Mortgage Loan** and selected a **Course of Action** prior to submission of its SWAT.

708.02B Purpose of SWAT

The purpose for the SWAT is to ascertain Potential Losses associated with the **Non-Performing Mortgage Loan** and the impact to the **Lender's** recourse obligation. The SWAT communicates to Fannie Mae the **Lender's** selected **Course of Action**, the underlying collateral value (which may be the **Special Servicer's** estimate or a broker's opinion of value, prior to obtaining an appraisal), operations and physical condition of the **Property**, financial condition of the **Borrower**, and loss mitigation actions proposed to be taken by the **Special Servicer**. Additionally, the SWAT specifies an anticipated resolution date, the anticipated resolution costs, and, if foreclosure is the selected **Course of Action**, the timing for the **Lender's** purchase of the **Mortgage Loan** from Fannie Mae, as provided in this Chapter.

708.02C Contents of SWAT

The SWAT submission must include:

- a copy of the **Note**;
- a copy of the recorded **Security Instrument**; and
- a copy of the recorded Assignment of **Security Instrument** to Fannie Mae. If the Assignment has not been recorded, the **Servicer** must, within five (5) **Business Days** after delivery of the SWAT to Fannie Mae **Special Asset Management** either:
 - repurchase the **Mortgage Loan** from Fannie Mae in accordance with this Chapter; or
 - record the original Assignment and deliver to Fannie Mae a file-stamped copy of the recorded Assignment.

In addition, if foreclosure is the selected **Course of Action**, the SWAT must include justification for a bid at the foreclosure sale that is less than an amount calculated as follows:

- the actual **UPB** of the **Mortgage Loan**;



- accrued interest, plus default interest, to the date of foreclosure sale;
- sums advanced pursuant to the [Security Instrument](#) (e.g., taxes, legal costs and fees, etc.);
- the Yield Maintenance or [Prepayment Premium](#); and
- accrued late charges;

Less the following amounts:

- funds held by the [Servicer](#) for taxes and insurance deposits, and [Collateral Agreement](#) deposits;
- funds collected or received as rents or net operating income; and
- proceeds from any insurance loss settlement.

708.02D Fannie Mae Approves SWAT

If Fannie Mae approves the SWAT, the [Special Servicer](#) will be granted a limited power of attorney to take all actions on behalf of Fannie Mae, as the noteholder and record lien holder, in accordance with the approved SWAT. In addition, if the [Special Servicer](#) or its legal counsel determines that, with respect to a specific [Non-Performing Mortgage Loan](#), a waiver of actions otherwise required in this Chapter is required by local law or a waiver will result in a more effective default resolution, then the [Special Servicer](#) must document the appropriate action through the SWAT.

708.02E Fannie Mae does not Approve SWAT

If Fannie Mae and the [Special Servicer](#) are not in agreement with the recommended [Course of Action](#) and the SWAT is not approved by Fannie Mae:

- the [Lender](#) may purchase the [Non-Performing Mortgage Loan](#) from Fannie Mae without expectation or ability to utilize the [Lender's](#) recourse obligation, as provided in this Chapter; or
- Fannie Mae may select or implement a [Course of Action](#) of its choosing. In such an event, the [Lender](#) must reimburse Fannie Mae, within one (1) month following written demand with supporting documentation of the amounts expended,



for all costs incurred by Fannie Mae in connection with its implementation of the [Course of Action](#). Fannie Mae may require settlement of any claims at any time before completion of the [Course of Action](#), based on a valuation process and reasonable estimates of its future costs. All sums paid by [Lender](#) pursuant to this provision shall not be deemed [Actual Losses](#) and shall not be reimbursed to [Lender](#) or credited against the [Lender's](#) recourse obligation.

708.02F Updating SWAT

It is essential for the [Special Servicer](#) and Fannie Mae to have open and timely communication throughout the SWAT process. Therefore, all SWATs must be updated and resubmitted to Fannie Mae [Special Asset Management](#) until final disposition of the [Non-Performing Mortgage Loan](#) at the following intervals:

- within three (3) [Business Days](#) after the [Special Servicer's](#) receipt of new information impacting the approved SWAT that changes its elected [Course of Action](#), including granting any forbearance, changing any listing prices or sales strategies for the [Property](#);
- at least ten (10) [Business Days](#) prior to a [Non-Performing Mortgage Loan](#) repurchase by [Lender](#) in accordance with this Chapter;
- at least five (5) [Business Days](#) prior to foreclosure sale, with a foreclosure strategy and bid justification to be determined as provided above in this Chapter;
- at least five (5) [Business Days](#) prior to the execution of any purchase and sale agreement for the [Property](#); and
- at least every six (6) months after the initial SWAT submission even if no changes have been made.

708.02G Failure to Timely Deliver SWAT

If Fannie Mae notifies the [Special Servicer](#) that it has failed to submit a SWAT in accordance with this Section, the [Special Servicer](#) must prepare and submit the SWAT within fifteen (15) [Business Days](#) following Fannie Mae's notification. Any continued failure to submit a required SWAT may result in Fannie Mae selecting or implementing a



Course of Action of its choosing. In such an event, within one (1) month following written demand with supporting documentation of the amounts expended, the **Lender** must reimburse Fannie Mae for all costs incurred by Fannie Mae in connection with its implementation of the **Course of Action**. Fannie Mae may require settlement of any claims at any time before completion of the **Course of Action**, based on a valuation process and reasonable estimates of its future costs. All sums paid by **Lender** pursuant to this provision shall not be deemed **Actual Losses** and shall not be reimbursed to **Lender** or credited against the **Lender's** recourse obligation.

708.02H No Credit Against Recourse

No credit against a **Lender's** recourse obligation will be given without an approved SWAT.

Section 709 Special Servicing of Primary Risk Mortgage Loans

709.01 Fannie Mae Performs Loss Mitigation Actions

For all **Non-Performing Primary Risk Mortgage Loans**, Fannie Mae or its contracted third-party special servicer shall be the **Special Servicer** and will make all decisions regarding loss mitigation and actions to be taken under the Dual Track Approach, including selecting and implementing a **Course of Action**. Therefore, the **Servicer** must remain in close contact with Fannie Mae **Special Asset Management** or the contracted third-party special servicer regarding all **Primary Risk Mortgage Loans**. Because of the loss sharing between Fannie Mae and the **Lender**, Fannie Mae or its contracted third-party special servicer will:

- provide the **Lender** with copies of correspondence and pleadings related its loss mitigation;
- include the **Lender** in discussions regarding the selection and implementation of the **Course of Action**; and
- provide the **Lender** with regular updates regarding the status of the **Non-Performing Primary Risk Mortgage Loan**.

Notwithstanding the foregoing, if the **Lender** or any of its subsidiaries or affiliates holds any equity interest in the **Borrower** (either as a direct investment or as a mezzanine lender), any correspondence or communications will not be given to the **Lender** regarding the **Non-**



Performing Primary Risk Mortgage Loan, other than copies of any correspondence required to be given to the Borrower.

Fannie Mae Special Asset Management or its contracted third-party special servicer will be the Servicer's primary point of contact during default resolution. While Fannie Mae or its contracted third-party special servicer will make all decisions on Primary Risk Mortgage Loans, including application of payments, handling of reserves, and reinstatement of the Mortgage Loan, the Servicer must comply with those determinations as part of its servicing duties. If a Servicer takes any action on a Non-Performing Primary Risk Mortgage Loan without the prior approval of Fannie Mae or its contracted third-party special servicer, such action will constitute a breach of the Servicer's obligations to Fannie Mae.

709.02 Servicing Transfer Memo

The Dual Track Approach requires a more formal relationship with the Borrower during the default resolution process. The Servicer and Fannie Mae must work together to collect the data and documentation needed to engage counsel and commence foreclosure proceedings. The Servicer is required to prepare a Servicing Transfer Memo (Form 4808). The Servicing Transfer Memo must be timely completed by the Servicer and delivered to Fannie Mae per Part V, Chapter 7: Non-Performing Mortgage Loans, Section 707.01: Transfer to Special Servicing. Following the transfer of the Non-Performing Mortgage Loan to Fannie Mae, the Servicer must have no conversations or communication with the Borrower regarding the defaults, the Property condition, possible workouts or reinstatement, or other matters typically handled by the Special Servicer.

Section 710 Engagement of Legal Counsel

710.01 Fannie Mae Retains Legal Counsel

All legal counsel, whether for Primary Risk Mortgage Loans or Secondary Risk Mortgage Loans, must be retained by Fannie Mae. An Engagement of Counsel Letter will be used to document the contractual engagement and a copy will be provided to the Servicer and Special Servicer.

710.02 Primary Risk Mortgage Loans



For **Primary Risk Mortgage Loans**, Fannie Mae will refer the matter to legal counsel in the **Property** jurisdiction. The legal counsel will provide copies of all correspondence, pleadings and documents to the **Servicer**, the **Lender** (if different from the **Servicer**) and Fannie Mae, unless Fannie Mae's attorney-client privilege requires otherwise. Neither the **Lender** nor the **Servicer** (if different from the **Lender**) is permitted to have any conversations with legal counsel on **Primary Risk Mortgage Loans**, without also including a representative of Fannie Mae's **Special Asset Management**.

710.03 Secondary Risk Mortgage Loans

For **Secondary Risk Mortgage Loans**, the **Special Servicer** must refer the matter to Fannie Mae's legal counsel in the **Property** jurisdiction pursuant to the approved SWAT. Fannie Mae will provide a listing of legal counsel on retainer with Fannie Mae in the **Property** jurisdiction for the **Special Servicer's** choice or Fannie Mae will provide a recommendation to the **Special Servicer** based upon the nature of the default and other facts unique to the **Non-Performing Mortgage Loan**. Prompt completion and approval of the SWAT will give legal counsel sufficient time to complete its conflicts check and to begin the foreclosure process as described in this Chapter by commencing legal action to enforce the assignment of rents and initiating a foreclosure action. The legal counsel will provide copies of all correspondence, pleadings and documents to both the **Lender** and Fannie Mae, unless Fannie Mae's attorney-client privilege requires otherwise. For **Secondary Risk Mortgage Loans**, legal counsel will provide its invoices for fees and expenses to the **Special Servicer** for payment.

710.04 Payment of Legal Counsel Fees

710.04A Primary Risk Mortgage Loans

Fannie Mae will pay all legal counsel fees for **Primary Risk Mortgage Loans**, which counsel fees will be included in the calculation of final settlement of loss. If the **Lender** or **Servicer** chooses to retain separate legal counsel on **Primary Risk Mortgage Loans**, the fees and costs of the **Lender's** or **Servicer's** legal counsel will not be included in the final settlement of loss.

710.04B Secondary Risk Mortgage Loans

For **Secondary Risk Mortgage Loans**, the **Special Servicer** shall pay all legal counsel fees; however, prior to the **Lender's**



repurchase of the [Secondary Risk Mortgage Loan](#) as provided in this Chapter, the outside counsel represents Fannie Mae as the noteholder. Notwithstanding the payment of legal fees by the [Special Servicer](#), so long as Fannie Mae is the noteholder, Fannie Mae is the client to outside counsel pursuant to the Engagement of Counsel Letter, and the payment of legal fees by the [Special Servicer](#) shall not be deemed to have created an attorney-client relationship between the [Special Servicer](#) and outside counsel. For [Secondary Risk Mortgage Loans](#), the [Special Servicer](#) must provide Fannie Mae [Special Asset Management](#) with a copy of all invoices for legal services paid on behalf of Fannie Mae, and those legal counsel fees will be included in the calculation of the final settlement of loss.

Section 711 Courses of Action

711.01 Election and Implementation of a Course of Action

As described in this Chapter, Fannie Mae is the [Special Servicer](#) and performs all loss mitigation activities for [Primary Risk Mortgage Loans](#). As such, Fannie Mae as the [Special Servicer](#) will elect a [Course of Action](#) (either jointly with the Lender, if applicable, or separately, depending upon the specific [Course of Action](#)), and implement the elected [Course of Action](#). For [Secondary Risk Mortgage Loans](#), the [Special Servicer](#) shall recommend the [Course of Action](#) in the Servicing Workout Action Template (“SWAT”) and, once approved by Fannie Mae, implement such [Course of Action](#).

The Courses of Action are:

- Lender Purchase of Mortgage Loan, as described in [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02: Course of Action – Lender Purchase of Mortgage Loan](#);
- Lender Workout, as described in [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.03: Course of Action – Lender Workout Election](#);
- Joint Fannie Mae/Lender Workout (a “Joint Workout”), as described in [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04: Course of Action – A Joint Workout](#);
- Foreclosure, as described in [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.05: Course of Action - Foreclosure](#); and



Note Sale or Discounted Loan Payoff, as described in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.06: Course of Action – Note Sale Election or Discounted Loan Payoff.

A Lender Purchase of Mortgage Loan and a Lender Workout may be exercised solely by the Lender and in the Lender's sole discretion, subject to the requirements of Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02: Course of Action – Lender Purchase of Mortgage Loan and Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.03: Course of Action – Lender Workout Election. A Joint Workout must be agreed to jointly by Fannie Mae and the Lender, and implemented prior to the conclusion of a foreclosure, as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04: Course of Action – A Joint Workout. A Note Sale or Discounted Loan Payoff, as an alternative to foreclosure, must also be agreed to jointly by Fannie Mae and the Lender, as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.06: Course of Action – Note Sale Election or Discounted Loan Payoff. Fannie Mae will generally follow the Dual Track Approach and, unless one of the other Courses of Action is being followed, a Foreclosure will be the applicable Course of Action.

711.02 Course of Action – Lender Purchase of Mortgage Loan

LENDER PURCHASE OF A SECURITIZED MORTGAGE LOAN IS NOT PERMITTED UNLESS THE MORTGAGE LOAN HAS BEEN DELINQUENT FOR FOUR CONSECUTIVE MONTHS. ONLY AFTER THE PASSAGE OF SUCH FOUR CONSECUTIVE MONTH DELINQUENCY PERIOD MAY THE MORTGAGE LOAN BE REMOVED FROM THE SECURITY TRUST. A DELINQUENT MORTGAGE LOAN MUST BE REMOVED FROM THE SECURITY TRUST NOT LATER THAN 24 MONTHS AFTER INITIAL DELINQUENCY.

711.02A Primary Risk Mortgage Loans

If the Non-Performing Mortgage Loan is four or more consecutive months delinquent, the Lender, at its option, may purchase the Mortgage Loan from Fannie Mae with its own funds and pursue its own course of action with respect to that Mortgage Loan.

711.02B Secondary Risk Mortgage Loans



For **Secondary Risk Mortgage Loans**, the Lender must specifically indicate this **Course of Action** on its SWAT, which will serve as documentation of the Lender's agreement to repurchase the **Mortgage Loan**. Neither the purchase price nor any losses incurred on a **Secondary Risk Mortgage Loan** repurchased by the Lender pursuant to this **Course of Action** will be included in any loss sharing with Fannie Mae or be credited against the Lender's recourse obligation but will be solely for the account of the Lender.

711.02C Purchase Price for Mortgage Loans

For **Primary Risk Mortgage Loans** and **Secondary Risk Mortgage Loans** purchased pursuant to this Section, unless otherwise provided in the **Lender's Contract**, the purchase or repurchase price will be equal to:

- the then unpaid actual principal balance of the **Mortgage Loan**; plus
- interest as follows:
 - except for any **Securitized Mortgage Loan**, interest accrued through the purchase date; or
 - for any **Securitized Mortgage Loan**, interest for the entire month in which the purchase occurs based on the **Security Balance** remaining after applying the scheduled **Mortgage Loan** payment due on the first day of that month; plus
- any **Prepayment Premium** or Yield Maintenance owed to Fannie Mae as of the purchase date pursuant to the terms of the **Note**; less
- any **Delinquency Advance** made, but not reimbursed either by Fannie Mae or by or on behalf of the **Borrower**.

711.02D No Fannie Mae Approval Required

The election and implementation of this **Course of Action** does not require Fannie Mae's concurrence or approval as long as the Lender complies with the foregoing requirements and exercises this option prior to the foreclosure sale or the conclusion of any other **Course of Action**.

711.02E Implementation of Course of Action



If this [Course of Action](#) is elected by the [Lender](#), then the [Lender](#) may purchase the [Non-Performing Mortgage Loan](#) by:

- giving written notice to Fannie Mae of such election, or, if a [Secondary Risk Mortgage Loan](#), indicating such election on the initial SWAT or updated SWAT, no later than 10 [Business Days](#) before the proposed purchase date, that [Lender](#) has elected to purchase the [Mortgage Loan](#) and identifying the anticipated purchase date;
- purchasing the [Mortgage Loan](#) on the identified purchase date at the purchase price as calculated in [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02C: Purchase Price for Mortgage Loans](#);
- purchasing the [Mortgage Loan](#) in the [Lender's](#) own name or the name of an affiliate as indicated on the written notice of its election of this [Course of Action](#), and thereafter implementing its own [Course of Action](#) with respect to that [Mortgage Loan](#);
- delivering to Fannie Mae on the identified purchase date the purchase price, together with an original assignment of the [Mortgage Loan](#), in recordable form for the applicable property jurisdiction, and such other assignment documents as may be necessary to fully assign, without recourse, representation, or warranty, Fannie Mae's interest in the [Mortgage Loan](#) to the [Lender](#); and
- all documents delivered to Fannie Mae for execution shall be pursuant to [Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae](#).

Within five [Business Days](#) following receipt from the [Lender](#) of the purchase price and the assignment, Fannie Mae will execute and return to the [Lender](#) the original assignment, together with:

- the original [Note](#) endorsed, without recourse, representation or warranty, to the [Lender](#) (or its affiliate);
- the original [Mortgage Loan](#) file; and
- such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae's interest in the [Mortgage Loan](#) to the [Lender](#) (or its affiliate).

711.03 Course of Action – Lender Workout Election



711.03A Lender Workout Defined

With any **Non-Performing Mortgage Loan** in Monetary or **Payment Default**, the **Lender** may enter into an arrangement with the **Borrower** in which the **Lender** agrees to make its own loan and advance its own funds to the **Borrower** to cure the defaults (a “Lender Workout”).

Examples of instances where a Lender Workout may be appropriate include:

- **Property** cash flow shortfall is temporary in nature;
- the **Mortgage Loan** becomes delinquent within the first year following the sale of the **Mortgage Loan** to Fannie Mae;
- the cost of the Lender Workout to the **Lender** may be less than the cost to the **Lender** of a Joint Workout or foreclosure; or
- **Mortgage Loans** at Loss Level II or III.

711.03B Documentation and Terms of Lender Workout

A Lender Workout must be documented as a separate loan from the **Lender** to the **Borrower** to meet the **Property**’s operating needs and fully cure the Monetary or **Payment Default**. The **Lender** may place whatever restrictions it deems appropriate on the disbursement and use of the funds. The Lender Workout loan may be unsecured, secured by a subordinate lien against the **Property** (with Fannie Mae’s prior approval), or secured by other collateral. Any subordinate lien, by its express terms, must be fully subordinated to all **Mortgage Loans** in favor of Fannie Mae, and must comply with the requirements for junior liens included in Parts I, II, and III. The **Loan Documents** evidencing the Lender Workout loan must clearly indicate that the loan does not in any way affect the status of the **Mortgage Loans** owned by Fannie Mae or any of Fannie Mae’s rights or remedies in connection therewith, and that the amount owed under the Lender Workout is owed only and directly to the **Lender** and is not added to Fannie Mae’s **Mortgage Loan(s)**.

711.03C Lender Workout Has No Impact on Loss Sharing or Recourse Obligation

1. Primary Risk Mortgage Loans

Any sums lent by the **Lender** or expenses incurred by the **Lender** in a Lender Workout will not be included in the final settlement



of loss for the [Primary Risk Mortgage Loan](#).

2. **Secondary Risk Mortgage Loans**

Any losses incurred on a [Secondary Risk Mortgage Loan](#) as a result of the Lender Workout will be the obligation of the Lender but will not be applied as a credit against the Lender's recourse obligation.

711.03D No Fannie Mae Approval Required

Before committing to a Lender Workout with the [Borrower](#), the Lender must obtain the written approval of Fannie Mae [Special Asset Management](#). Fannie Mae [Special Asset Management](#) will have 10 [Business Days](#) from receipt of written notice from the Lender, containing the terms of the Lender Workout to approve or disapprove the Lender Workout [Course of Action](#). With its notice of its intention to enter into a Lender Workout, the Lender must deliver a copy of the proposed Lender Workout documents, including subordinate lien documentation, if applicable, to Fannie Mae [Special Asset Management](#) for review and approval prior to execution. The purpose of this review is to determine that:

- the Lender Workout and related documents:
 - do not modify or waive any of the terms of the [Mortgage Loan\(s\)](#), including the [Note](#) rate, term, or amortization;
 - do not modify or waive any of the terms of the [Collateral Agreements](#);
 - do not limit, waive, or lessen Fannie Mae's rights, claims, or remedies under its [Security Instrument](#) including, but not limited to, obtaining a priority claim in a bankruptcy proceeding as a result of lending money to the [Borrower](#);
 - do not prevent, or otherwise limit, Fannie Mae from enforcing its rights under the [Mortgage Loan Documents](#) in the event the Lender defaults under its workout with the [Borrower](#); or
 - do not violate any bond documentation or [Security](#) rules, if applicable;
- the term of the Lender Workout loan does not exceed 24 months; and
- Fannie Mae is satisfied with the performance of any



previous Lender Workouts and the total of all Lender Workouts does not materially impact the Lender's financial condition.

If the Non-Performing Mortgage Loan has been accelerated prior to notice of the Lender Workout, it is in Fannie Mae's sole discretion to agree to accept less than the full payoff and reinstate the Mortgage Loan.

If Fannie Mae approves the Lender Workout, the Lender must deliver a copy of the executed Lender Workout documents, including a Subordination Agreement, if applicable, to Fannie Mae Special Asset Management and to Fannie Mae Asset Acquisition and Custody. If the Borrower subsequently defaults under the Mortgage Loan after the Lender Workout, then the Servicer must follow the procedure outlined in this Chapter for a Non-Performing Mortgage Loan as if no Lender Workout occurred.

711.03E Servicer Makes Delinquency Advances But Fails to Report Mortgage Loan Delinquent

If a Servicer advances P&I payments on a Mortgage Loan with a Monetary or Payment Default, but the Mortgage Loan has not been reported as delinquent on the Multifamily Delinquency System as required in this Chapter, such advances will be considered an unauthorized Lender Workout and will not be considered a Delinquency Advance.

711.03F Foreclosure Process Continues Unless Otherwise Agreed to by Fannie Mae

If a Lender Workout is approved, the foreclosure process will continue until the earlier of the curing of the defaults by the Lender Workout or the foreclosure sale. If Fannie Mae approves the Lender Workout, the Lender must fully implement the Lender Workout on the approved terms, and thereby cure all defaults, prior to any scheduled foreclosure sale or the conclusion of any other Course of Action by Fannie Mae. If the Lender Workout is proceeding and is likely to be consummated, Fannie Mae may agree to reschedule (but not cancel) the foreclosure sale. Any agreement to delay a foreclosure sale or any other Course of Action to allow the implementation of the Lender Workout will be solely in Fannie Mae's discretion.

711.04 Course of Action – A Joint Workout



JOINT WORKOUTS ARE NOT AVAILABLE FOR SECURITIZED MORTGAGE LOANS WHILE THE MORTGAGE LOAN REMAINS IN THE SECURITY TRUST.

711.04A Joint Workout Defined

Either the [Lender](#) or Fannie Mae may propose that the [Lender](#) and Fannie Mae attempt to negotiate a Joint Workout with the [Borrower](#) with respect to a [Non-Performing Mortgage Loan](#). A refinancing of the [Non-Performing Mortgage Loan](#) under Fannie Mae's [In Place Loan](#) execution as described in [Part V, Chapter 8: In Place Loans](#) is a Joint Workout under this Chapter.

711.04B Delinquency Advances Must Be Made During Negotiation of Joint Workout

If Fannie Mae and the [Lender](#) agree upon a Joint Workout, then during the negotiation of the workout agreement, the [Servicer](#) must continue to make [Delinquency Advances](#) to Fannie Mae in accordance with the [Lender's Contract](#). (See the Checklist of Issues to Consider in Doing a Workout Analysis ([Form 4809](#)) to review the specific tasks to be completed prior to electing a Joint Fannie Mae/[Servicer](#) Workout.)

711.04C Joint Workout Process

The following is a general description of how a Joint Workout process might work.

1. Fact-Finding Meeting

The first contact between the [Borrower](#), Fannie Mae and the [Lender](#) will be a fact-finding meeting and will focus on:

- explaining the Dual Track Approach and, if the Pre-Negotiation Letter has not been signed, executing the letter;
- reviewing the documents necessary for the [Servicer](#) or Fannie Mae to complete its due diligence and the Asset Review (for a [Primary Risk Mortgage Loan](#)) or Asset Audit (for a [Secondary Risk Mortgage Loan](#)); and
- the [Borrower's](#) explanation of its requested relief.

2. Fannie Mae and Lender Meeting

A separate meeting between Fannie Mae and the [Lender](#) will



focus on:

- reviewing the **Lender's** and Fannie Mae's due diligence;
- reviewing the **Borrower's** request;
- formulating a response to the **Borrower's** request with emphasis on the source and use of funds necessary to implement the Joint Workout; and
- the impact of the Joint Workout on the **Lender's** servicing and loss sharing obligations to Fannie Mae and any modifications to each that need to be made.

It is important that any differences between Fannie Mae and the **Lender** be resolved at this meeting. If the **Lender's** contribution to the Joint Workout or a modification to its servicing or loss sharing obligations must be documented, this must be included in a separate document between Fannie Mae and the **Lender**.

3. Workout Meeting with Borrower

If a Joint Workout appears feasible, Fannie Mae and the **Lender** will schedule a workout meeting with the **Borrower**. All parties, including Fannie Mae, the **Lender**, the **Borrower**, and their respective legal counsel, must attend and must allow enough time to facilitate a workout. Those in attendance must have authority to execute documents pursuant to a signed Pre-Negotiation Letter. Experience indicates that to be most productive, the workout meeting should start early in the morning and continue until a deal is reached or the parties agree to disagree.

4. Letter of Intent

If agreement is reached on all of the terms of the Joint Workout, counsel will draft a non-binding letter of intent, to be executed during the workout meeting. This letter of intent will set forth each party's agreements and obligations until the formal, written modification documents are completed. The letter of intent must be specific enough to fully reflect the intent of the parties (other than any modifications to the **Lender's** servicing or loss sharing obligations). Until the formal modification documents are completed and executed by all parties, there has been no modification of the terms of the **Non-Performing Mortgage Loan** or the **Borrower's** obligations.

711.04D Modification, Extension, and Forbearance Fees



The Lender is not permitted to charge or collect from the Borrower a fee for any modification, extension, or forbearance of a Mortgage Loan without the prior written consent of Fannie Mae. If the Lender has a loss sharing obligation to Fannie Mae, then Fannie Mae and the Lender may jointly elect to charge the Borrower a modification, extension or forbearance fee. If Fannie Mae and the Lender elect to charge such fee, and so long as the Lender has a loss sharing obligation to Fannie Mae, Fannie Mae will share such fee with the Lender on the basis of:

- if the applicable Mortgage Loan is a Pre-Review Large Mortgage Loan under Fannie Mae's Multifamily Underwriting Standards (Form 4660), then pro rata between the Lender and Fannie Mae in accordance with their respective loss sharing percentages for such Mortgage Loan (taking into account any Modified Risk Loss Sharing (as defined in the Loss Sharing Addendum) applicable to the Mortgage Loan); or
- if the applicable Mortgage Loan is not a Pre-Review Large Mortgage Loan, then 40 percent to the Lender and 60 percent to Fannie Mae.

711.04E Triggering Modification Fees; Other Fees

If a Triggering Modification has occurred, a Triggering Modification Interim Loss Sharing calculation was made and a reserve was established against the Lender's Operational Liquidity (as provided in the Loss Sharing Addendum), any fees other than those provided for in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04D: Modification, Extension, and Forbearance Fees shall be split between Fannie Mae and the Servicer in accordance with their respective loss sharing percentages at the time of the Triggering Modification (taking into account any Modified Risk Loss Sharing applicable to the Mortgage Loan). Except as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.04D: Modification, Extension, and Forbearance Fees with respect to modification, extension and forbearance fees, and any fees required by Fannie Mae in connection with a Triggering Modification, no other fees required by Fannie Mae in connection with a Mortgage Loan modification, extension or forbearance shall be split between the Lender and Fannie Mae.

711.04F Foreclosure Process Continues Unless Otherwise Agreed to by Fannie Mae



The discussions with the [Borrower](#) in attempting to reach agreement on a Joint Workout are part of Track One of the Dual Track Approach (maintaining dialogue with the [Borrower](#) to attempt to resolve the defaults) as outlined in this Chapter. Accordingly, Track Two, the Foreclosure Track, of the Dual Track Approach will continue and will not be postponed or delayed until agreement with the [Borrower](#) has been reached and the Joint Workout has been documented. If the Joint Workout is proceeding and is likely to be consummated, Fannie Mae may agree to reschedule (but not cancel) the foreclosure sale. If the parties are unable to agree on a Joint Workout, the parties shall continue to pursue the Track Two approach and proceed to foreclosure or such other Fannie Mae-approved course of action.

711.05 Course of Action - Foreclosure

LENDER PURCHASE OF A SECURITIZED MORTGAGE LOAN IS NOT PERMITTED UNLESS THE MORTGAGE LOAN HAS BEEN DELINQUENT FOR FOUR CONSECUTIVE MONTHS. ONLY AFTER THE PASSAGE OF SUCH FOUR CONSECUTIVE MONTH DELINQUENCY PERIOD MAY THE MORTGAGE LOAN BE REMOVED FROM THE SECURITY TRUST. A DELINQUENT MORTGAGE LOAN MUST BE REMOVED FROM THE SECURITY TRUST NOT LATER THAN 24 MONTHS AFTER INITIAL DELINQUENCY.

711.05A Primary Risk Mortgage Loans

Unless one of the other [Courses of Action](#) described in this Section has been selected, Fannie Mae will instruct outside counsel to vigorously pursue a foreclosure, following the foreclosure process described under Track Two of the Dual Track Approach in [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 712: Dual Track Approach](#).

711.05B Secondary Risk Mortgage Loans

Unless one of the other [Courses of Action](#) described in this Section has been selected and, if part of a SWAT approved by Fannie Mae, the [Special Servicer](#) will instruct outside counsel to vigorously pursue a foreclosure, following the foreclosure process described under Track Two of the Dual Track Approach in [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 712: Dual Track Approach](#).



If foreclosure is the approved Course of Action for a Non-Performing Secondary Risk Mortgage Loan, the Lender must purchase the Mortgage Loan from Fannie Mae. Such purchase of the Mortgage Loan from Fannie Mae is not considered to be the exercise of the Course of Action set forth in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02: Course of Action – Lender Purchase of Mortgage Loan, but is part of the foreclosure Course of Action under this Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.05: Course of Action - Foreclosure and is to permit the Lender to credit bid at the foreclosure sale and/or if the winning bidder, to permit the Lender to hold title to and operate the Property in the name of the Lender or its designee. In connection with exercising the foreclosure Course of Action, the Lender must purchase the Mortgage Loan under one of the following options, either of which must be identified in the SWAT submitted to Fannie Mae.

1. Purchase Prior to Foreclosure

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan prior to foreclosure by:

- indicating on the initial SWAT, or updated SWAT received by Fannie Mae no later than 10 Business Days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan prior to foreclosure, and identifying the anticipated purchase date;
- purchasing, on the identified purchase date, the Mortgage Loan from Fannie Mae at the purchase price as calculated below in this Part V, Section 711.05.B;
- purchasing the Mortgage Loan in the Lender's own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter implementing the foreclosure process in its own name;
- within five Business Days following receipt from the Lender of the purchase price together with an original assignment of the Mortgage Loan, in recordable form, Fannie Mae will execute and return the original assignment, together with:
 - the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);
 - the original Mortgage Loan file; and
 - such other documents as necessary to fully assign,



without recourse, representation or warranty, Fannie Mae's interest in the [Mortgage Loan](#) to the [Lender](#) (or its affiliate);

- all documents delivered to Fannie Mae for execution shall be pursuant to [Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae](#);
- after completion of the foreclosure, the [Lender](#) or its affiliate will hold title to the [Property](#) until disposition;
 - the [Lender](#) will continue to submit updated SWATs for Fannie Mae's approval until disposition of the [Property](#), at which time the [Lender](#) will submit its Loss Notification Form (Form 4817) (as provided in the [Lender's Contract](#)) to Fannie Mae; and
- if the [Non-Performing Secondary Risk Mortgage Loan](#) reinstates by the [Borrower](#) following the [Lender's](#) purchase but prior to the foreclosure sale, the [Lender](#) will not be entitled to credit any future losses on the [Mortgage Loan](#) against its recourse obligation.

2. Purchase Immediately After Foreclosure

The [Lender](#) may purchase the [Non-Performing Secondary Risk Mortgage Loan](#) immediately following foreclosure by:

- indicating on the initial SWAT, or updated SWAT received by Fannie Mae no later than 60 [Business Days](#) before the foreclosure sale date, that [Lender](#) has elected to purchase the [Mortgage Loan](#) immediately following foreclosure (assuming Fannie Mae is the winning bidder at the foreclosure sale), and identifying the anticipated foreclosure sale date;
- including with such SWAT an initial Asset Audit prepared no later than 60 days following the [Date of Default](#), and providing to Fannie Mae a final and complete Asset Audit at least 60 [Business Days](#) prior to foreclosure;
- no later than 10 [Business Days](#) prior to the foreclosure sale date, prepare and deliver to Fannie Mae an original Special Warranty Deed, in recordable form, and an escrow letter as provided below. Fannie Mae will execute and deliver to an



agreed-upon escrow agent, pursuant to escrow instructions also prepared by the Lender, the Special Warranty Deed, together with (i) the original Note endorsed, without recourse, representation or warranty, to the Lender, and (ii) the original Mortgage Loan file. Such escrow letter must contain instructions that require the escrow agent, within five Business Days following the foreclosure sale date, to either (a) deliver the Special Warranty Deed and other required documentation to Lender upon Fannie Mae's confirmation of receipt of the purchase price or (b) return the original Special Warranty Deed and all other documentation to Fannie Mae;

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae;
- on the foreclosure sale date, the Lender purchases the Property from Fannie Mae at the purchase price as calculated below in this Part V, Section 711.05.B;
- the Lender purchases the Mortgage Loan in its own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter owns, operates and manages the Property until disposition;
- the Special Warranty Deed from Fannie Mae must be filed of record immediately following the recording of the foreclosure or trustee's deed into Fannie Mae; and
- the Lender will continue to submit updated SWATs for Fannie Mae's approval until disposition of the Property, at which time the Lender will submit its Loss Notification Form (Form 4817) to Fannie Mae.

3. Purchase Price for Purchase Immediately Prior To or After Foreclosure

For Secondary Risk Mortgage Loans purchased pursuant to this Section, unless otherwise provided in the Lender's Contract, the purchase or repurchase price will be equal to:

- the then unpaid actual principal balance of the Mortgage Loan; plus
- interest as follows:



- except for any **Securitized Mortgage Loan**, interest accrued through the purchase date; or
 - for any **Securitized Mortgage Loan**, interest for the entire month in which the purchase occurs based on the **Security Balance** remaining after applying the scheduled **Mortgage Loan** payment due on the first day of that month; less
- any **Delinquency Advance** made, but not reimbursed either by Fannie Mae or by or on behalf of the **Borrower**.

711.05C Deed-in-Lieu of Foreclosure

Fannie Mae, in its sole discretion, may or may not elect to take a deed-in-lieu of foreclosure for any **Primary Risk** or **Secondary Risk Mortgage Loan**.

711.05D Management of Property Post Title Vesting in Fannie Mae

If **Lender** has made a Deferred Asset Valuation Date Election under its Loss Sharing Addendum, and title to a **Property** has vested in Fannie Mae, its affiliate or nominee as a result of a **Foreclosure Event** (as defined in the Loss Sharing Addendum) or other judicial process, Fannie Mae shall, except for matters relating to life/safety at the **Property**, consult with the **Lender** for purposes of making joint decisions with the **Lender** with respect to major decisions regarding the management and disposition of the **Property**, including but not limited to:

- the timing and terms of listing the **Property** for sale;
- the acceptance of terms of sale of the **Property**;
- any financing of the **Property**;
- approval of any business plan with respect to the **Property**;
- approval of each annual budget for the **Property**;
- any deviation from the approved budget by more than 20 percent with respect to any line item on a semi-annual basis;
- approval and implementation of any rehabilitation or renovation plan with respect to the **Property**;
- any decision to and implementation of a plan to develop



any or all of the **Property**;

- any capital expenditures in excess of \$50,000 with respect to the **Property**;
- engagement of any professional advisors, other than in the ordinary course of business;
- entering into any **Material Commercial Lease** of any space within a **Property**, other than in the ordinary course of business;
- commencement, institution or settlement of any legal proceedings with respect to the **Property**, other than eviction and termination proceedings in respect of tenant leases and other non-material legal proceedings for the collection of amounts due and owing from third parties and tenants undertaken in the ordinary course of business; and
- the decision and implementation of any plan not to rebuild or restore the **Property** following any casualty or condemnation.

Any request by Fannie Mae with respect to a major decision shall be responded to in writing by the **Lender** within two **Business Days** of the making of such request. Any request with respect to a major decision not responded to by the **Lender** within two **Business Days** shall be deemed approved.

711.05E Deficiency Suits

1. General

If a foreclosure sale is conducted with respect to a **Property**, Fannie Mae shall determine whether to pursue a deficiency against the **Borrower** or pursue any guarantor who may have liability with respect to such **Mortgage Loan** post-foreclosure or other final disposition of the **Mortgage Loan** (a “Deficiency Suit”), if such action is available under applicable state law.

Nothing in this Section E shall be deemed to relieve either **Lender** or Fannie Mae from any claims of indemnification under the terms of their **Contract**.

2. Fannie Mae Deficiency Suit Election

If Fannie Mae elects to pursue a Deficiency Suit, and the **Lender’s Allocable Percentage** per the Loss Sharing Addendum with



respect to the relevant **Mortgage Loan** is greater than zero, the **Lender** may elect to share in the cost and recovery related to such Deficiency Suit. If the **Lender** elects to participate in such Deficiency Suit, Fannie Mae shall bear 67 percent of the costs and expenses of such Deficiency Suit, and the **Lender** shall bear 33 percent of the costs and expenses of such Deficiency Suit. Likewise, any recovery resulting from the Deficiency Suit shall be shared 67 percent to Fannie Mae and 33 percent to the **Lender**.

If Fannie Mae elects to pursue a Deficiency Suit, whether or not the **Lender** elects to participate in such Deficiency Suit, Fannie Mae shall make all decisions in its sole and absolute discretion regarding such Deficiency Suit, including but not limited to, selection of counsel, election of venue, relief to be sought, and the settlement of the Deficiency Suit.

3. Lender Deficiency Suit Election

If Fannie Mae elects not to pursue a Deficiency Suit following foreclosure, at the **Lender's** request, Fannie Mae shall assign the Deficiency Suit to the **Lender**, to the extent permitted by law and provided that such assignment shall be at no cost to Fannie Mae, and the **Lender** may thereafter pursue such Deficiency Suit in its own name. If the **Lender** does pursue the Deficiency Suit, Fannie Mae may elect to participate in the cost and recovery of such Deficiency Suit. All costs and expenses of such Deficiency Suit will be shared equally between the **Lender** and Fannie Mae, and likewise, any recovery resulting from such Deficiency Suit shall be shared equally between the **Lender** and Fannie Mae.

If Fannie Mae elects not to pursue a Deficiency Suit, and the **Lender** elects to pursue such Deficiency Suit in its own name, **Lender** shall make all decisions in its sole and absolute discretion regarding such Deficiency Suit, including but not limited to selection of counsel, election of venue, relief to be sought, and the settlement of the Deficiency Suit.

4. Costs and Expenses; Loss Sharing

If the **Lender** and Fannie Mae are sharing the costs and expenses of any Deficiency Suit, the party prosecuting such Deficiency Suit shall submit copies of all invoices to the other party for reimbursement of the other party's share of all costs and expenses incurred in connection with such Deficiency Suit. Such invoices shall be submitted no more frequently than every three months and shall be paid within 30 days of receipt.



Any recovery resulting from a Deficiency Suit, regardless of whether Fannie Mae or the Lender has participated in such Deficiency Suit, shall not affect the determination and payment of loss sharing pursuant to the Loss Sharing Addendum.

5. Withdrawal from Deficiency Suit

If Fannie Mae and the Lender are participating in a Deficiency Suit, either party may elect at any time to withdraw from the Deficiency Suit, in which case the withdrawing party shall be obligated to share the costs and expenses in the percentages set forth above through the date of its withdrawal. The withdrawing party shall not participate in any recovery.

711.06 Course of Action – Note Sale Election or Discounted Loan Payoff

NOTE SALES OR DISCOUNTED LOAN PAYOFFS ARE NOT AVAILABLE FOR SECURITIZED MORTGAGE LOANS WHILE THE MORTGAGE LOAN REMAINS IN THE SECURITY TRUST.

711.06A Note Sale and Discounted Loan Payoff Defined

As an alternative to foreclosure of the Property, it may be the best exit strategy for Fannie Mae and the Lender to agree to sell Fannie Mae's interest as the Noteholder. A sale of the Non-Performing Mortgage Loan to a third party is a "Note Sale", and accepting less than the full payoff from the Borrower is a "Discounted Loan Payoff". Such sale of the Non-Performing Mortgage Loan or acceptance of a Discounted Loan Payoff must be on terms mutually-agreeable to Fannie Mae and Lender.

711.06B Lender Ability to Bid

If Fannie Mae and the Lender agree to consider a Note Sale as the Course of Action for a Non-Performing Primary Risk Mortgage Loan, the Lender will have the option to participate in the Note Sale bidding process with other potential third-party purchasers after Fannie Mae and the Lender have mutually-agreed upon the Note Sale terms and pricing floor. The Lender's bid will be considered by Fannie Mae on the same basis as any other third-party bids received for the Note Sale. If the Lender is the successful bidder, the Lender will purchase the Non-Performing Mortgage Loan on the same terms as published to all bidders by Fannie Mae or, if utilized, the Note Sale broker. Any such sale of the Non-Performing Mortgage Loan to the Lender shall be



without recourse, representation or warranty by Fannie Mae, except as otherwise agreed by Fannie Mae.

711.06C Any Note Sale or Discounted Payoff Gives Rise to Loss Sharing Event

Any loss incurred by Fannie Mae in connection with a Note Sale or Discounted Payoff is a loss sharing event as contemplated by the [Lender's Contract](#).

711.06D Note Sale – Secondary Risk Mortgage Loans

For [Non-Performing Secondary Risk Mortgage Loans](#), the selection of a Note Sale as the [Course of Action](#) must be included in the SWAT submitted to Fannie Mae for approval. The approved Note Sales price will be the [Asset Value](#) for purposes of determining the reduction in the [Lender's](#) recourse obligation.

If a Note Sale is the approved [Course of Action](#) for a [Non-Performing Secondary Risk Mortgage Loan](#), the [Lender](#) must purchase the [Mortgage Loan](#) from Fannie Mae under one of the following options, either of which must be identified in the SWAT submitted to Fannie Mae.

1. Purchase Prior to Consummation of the Note Sale with the Third-Party Note Purchaser

The [Lender](#) may purchase the [Non-Performing Secondary Risk Mortgage Loan](#) from Fannie Mae prior to consummation of the Note Sale by:

- indicating such election on the initial SWAT or updated SWAT, received by Fannie Mae no later than 15 [Business Days](#) before the proposed purchase date, that [Lender](#) has elected to purchase the [Mortgage Loan](#) prior to the Note Sale closing and identifying the anticipated purchase date;
- purchasing, on the identified purchase date, the [Mortgage Loan](#) from Fannie Mae at the purchase price as calculated in Part V, Section 711.05.B.3;
- purchasing the [Mortgage Loan](#) in the [Lender's](#) own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter consummating the Note Sale with the third-party [Note](#) purchaser;
- within five [Business Days](#) following receipt from the [Lender](#) of the purchase price together with an original assignment



of the [Mortgage Loan](#), in recordable form, Fannie Mae will execute and return the original assignment, together with:

- the original [Note](#) endorsed, without recourse, representation or warranty, to the [Lender](#) (or its affiliate);
 - the original [Mortgage Loan](#) file; and
 - such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae's interest in the [Mortgage Loan](#) to [Lender](#) (or its affiliate); and
- all documents delivered to Fannie Mae for execution shall be pursuant to [Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae](#).

2. Purchase Simultaneously with Consummation of the Note Sale with the Third-Party Note Purchaser

The [Lender](#) may purchase the [Non-Performing Secondary Risk Mortgage Loan](#) from Fannie Mae simultaneously with its consummation of the Note Sale by:

- indicating such election on the initial SWAT or updated SWAT, received by Fannie Mae no later than 30 calendar days before the proposed purchase date, that [Lender](#) has elected to purchase the [Mortgage Loan](#) simultaneously with the Note Sale closing and identifying the anticipated purchase date;
- no later than 10 [Business Days](#) prior to the purchase date, prepare and deliver to Fannie Mae an original assignment of the [Mortgage Loan](#), in recordable form, and an escrow instruction letter as provided below. Fannie Mae will execute and deliver to an agreed-upon escrow agent, pursuant to the escrow instruction letter, the original assignment, together with:
 - the original [Note](#) endorsed, without recourse, representation or warranty, to the [Lender](#) (or its affiliate);
 - the original [Mortgage Loan](#) file; and
 - such other documents as necessary to fully assign,



without recourse, representation or warranty, Fannie Mae's interest in the [Mortgage Loan to Lender](#) (or its affiliate). Such escrow instruction letter must contain instructions that require the escrow agent, within five [Business Days](#) following the closing of the Note Sale, to either (a) deliver the original assignment and other required documentation to [Lender](#) upon Fannie Mae's confirmation of receipt of the purchase price, or (b) return the original assignment and all other documentation to Fannie Mae;

- all documents delivered to Fannie Mae for execution shall be pursuant to [Part V, Chapter 4: Asset Management: Loan Document Administration, Section 404.01: Submission of Documents to Fannie Mae](#);
- on the date of closing of the Note Sale with the third-party purchaser, the [Lender](#) will purchase the [Mortgage Loan](#) from Fannie Mae at the purchase price as calculated in [Part V, Section 711.05.B.3](#);
- the [Lender](#) purchases the [Mortgage Loan](#) in its own name (or in the name of an affiliate as indicated on the approved SWAT), and thereafter simultaneously closes the Note Sale with the third-party purchaser; and
- the assignment of the [Mortgage Loan](#) from Fannie Mae must be filed of record prior to the recording of the assignment from the [Lender](#) (or its affiliate) to the third-party purchaser of the [Note](#).

711.06E Discounted Loan Payoff - Secondary Risk Mortgage Loans

For [Non-Performing Secondary Risk Mortgage Loans](#), the selection of a Discounted Loan Payoff as the [Course of Action](#) must be included in the SWAT submitted to Fannie Mae for approval. The approved Discounted Loan Payoff amount will be the [Asset Value](#) for purposes of determining the reduction in the [Lender's](#) recourse obligation.

If a Discounted Loan Payoff is the approved [Course of Action](#) for a [Non-Performing Secondary Risk Mortgage Loan](#), the [Lender](#) shall implement the [Course of Action](#) by:

- indicating in the initial SWAT, or updated SWAT received by Fannie Mae no later than 10 [Business Days](#) before the



proposed payoff date, that Lender has elected such Course of Action and identifying the anticipated payoff date;

- delivering to Fannie Mae on the identified payoff date the payoff amount as calculated in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711.02C: Purchase Price for Mortgage Loans; and
- the Lender must follow the post-payoff actions as described in Part V, Chapter 2: Reporting and Remitting, Section 215: Post-Payoff Actions.

Section 712

Dual Track Approach

The Dual Track Approach and other requirements of this Part V, Section 712 apply to all Non-Performing Primary Risk Mortgage Loans and Non-Performing Secondary Risk Mortgage Loans.

For Secondary Risk Mortgage Loans, the Special Servicer must follow the Dual Track Approach as outlined here, unless revised by an approved SWAT. Unless the Lender has previously elected either the Lender Purchase or Lender Workout Course of Action, the Dual Track Approach (including the foreclosure process) must be immediately commenced by the Special Servicer following the transfer of the Non-Performing Mortgage Loan to the Special Servicer for default resolution.

712.01 Dual Track Approach Generally

The most effective and efficient approach to resolving a Non-Performing Mortgage Loan requires pursuing dual tracks concurrently:

- dialogue with the Borrower; and
- foreclosure process.

To be effective, both tracks of the Dual Track Approach must be pursued aggressively to ensure the Borrower understands the gravity of its default. The Dual Track Approach must be implemented immediately for all reported defaults, regardless of the Special Servicer's subsequent election of remedy to resolve the default. While the Dual Track Approach is described in detail in this Chapter, the default resolution process remains a case-specific process and not



every case will fit perfectly into this approach.

712.02 Waiver of Dual Track Approach

For [Secondary Risk Mortgage Loans](#), exceptions to the Dual Track Approach require a written waiver from Fannie Mae [Special Asset Management](#), in the approved SWAT submitted pursuant to [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 705.01: Funding Capital Repairs During Default Resolution](#). If the outside counsel determines that a waiver to the Dual Track Approach is required by local law or if the [Special Servicer](#) determines that a waiver will result in more effective resolution of the default, then the [Special Servicer](#) must submit a written waiver request to Fannie Mae [Special Asset Management](#) in the SWAT, providing the reasoning for the waiver.

712.03 Track One: Dialogue with the Borrower

712.03A Purpose of Track One

Track one involves maintaining a dialogue with the [Borrower](#) during calendar days two (2) through 60, beginning immediately after the initial [Payment Default](#) or discovery of a non-monetary default that may become a [Performance Default](#) if not timely cured. When there is a default under a [Mortgage Loan](#), it is absolutely essential that the [Servicer](#) immediately contact the [Borrower](#) to determine the cause of the default and to begin discussion on how the default will be cured. Until the [Non-Performing Mortgage Loan](#) is transferred to special servicing, the [Servicer](#) must maintain a dialogue with the [Borrower](#) and Fannie Mae [Special Asset Management](#) about an acceptable resolution of the [Mortgage Loan's](#) default.

The first 30 calendar days of the Dialogue Track are focused on working with the [Borrower](#) to collect all sums due and owing or curing any possible [Performance Default](#). While calendar days 31 through 60 continue to focus on collections or curing the default, the focus also includes preparing a [Non-Performing Mortgage Loan](#) for default resolution.

712.03B First 30 Calendar Days after a Default

During this stage of the Dialogue Track, a [Servicer](#) must act quickly and aggressively to establish contact with the [Borrower](#) to determine:

- the cause of the [Performance Default](#) or [Payment Default](#);



- whether the **Borrower** will cure the **Performance Default** within the prescribed cure period or the **Payment Default** prior to the end of the month in which the missed payment occurred;
- the likelihood of the **Borrower** making the next month's payment; and
- if the missed payment will not be made, whether the **Borrower** will voluntarily turn over the monthly net operating income of the **Property**.

Because Fannie Mae requires **Servicers** to report all delinquent **Mortgage Loans** as of the 17th day of the month, **Servicers** must begin calling and corresponding with delinquent **Borrowers** as early as a few days after the **Payment Due Date** or the day before the **Late Fee** becomes due. These practices facilitate accurate and timely delinquency reporting to Fannie Mae. Waiting until the **Late Fee** becomes due to begin contacting delinquent **Borrowers** jeopardizes the **Servicer's** ability to report and certify delinquent **Mortgage Loans** on a timely and complete basis.

712.03C Calendar Days 31 through 60 after a **Payment Default** or **Performance Default**

1. Primary Risk Mortgage Loans

During calendar days 31 through 60 after a **Payment Default** or **Performance Default**, or until the **Non-Performing Primary Risk Mortgage Loan** is transferred to Fannie Mae **Special Asset Management** as provided in **Part V, Chapter 7: Non-Performing Mortgage Loans, Section 707.01: Transfer to Special Servicing**, the **Servicer** must remain focused on aggressively pursuing the **Borrower** to collect all amounts due or assure a cure of the **Performance Default**. The **Servicer** must continue to call and correspond with the **Borrower** and make every attempt to resolve the **Payment Default** or **Performance Default**.

2. Secondary Risk Mortgage Loans

For **Secondary Risk Mortgage Loans**, Fannie Mae expects aggressive communication with the **Borrower** to attempt to resolve the **Payment Default** or **Performance Default** quickly, before the need to transfer the **Non-Performing Mortgage Loan** to its special servicing to prepare the **SWAT**.

712.03D Cessation of Dialogue with the **Borrower**



1. Cessation of Negotiations with the Borrower

Continuing an open dialogue with the **Borrower** is premised on the **Borrower** providing documentation necessary to complete:

- the **Servicing Transfer Memo for Primary Risk Mortgage Loans**; or
- the **SWAT for Secondary Risk Mortgage Loans**.

It is expected that the **Borrower** will account for and remit the monthly net operating income from the **Property** to the **Servicer**. If the **Borrower** is not willing to account for and remit the monthly net operating income to the **Servicer**, then further negotiations with the **Borrower** must cease immediately.

2. Primary Risk Mortgage Loans

Upon transfer of the **Primary Risk Mortgage Loan** to Fannie Mae **Special Asset Management**, the **Servicer** must cease any further dialogue or correspondence with the **Borrower** regarding the status of the **Non-Performing Mortgage Loan** or the **Borrower's** efforts to cure the default. If the **Servicer** must engage in further discussions with the **Borrower**, a representative of Fannie Mae **Special Asset Management** must be included in the discussions.

3. Secondary Risk Mortgage Loans

Upon transfer of the **Secondary Risk Mortgage Loan** to the **Servicer's** special servicing unit, the **Servicer** must document any further dialogue or correspondence with the **Borrower** regarding the status of the **Non-Performing Mortgage Loan** or the **Borrower's** efforts to cure the default in its **SWAT**.

712.04 Track Two: Foreclosure Process

712.04A The Foreclosure Process

1. Generally

Track two involves initiating the foreclosure process. Experience has shown that if the foreclosure process is delayed until the parties know whether a workout is achievable or an alternative **Course of Action** is preferred, valuable time is lost. Initiating the foreclosure process has the added benefit of keeping the parties focused on the problem. This overall approach necessarily requires:

- more formal communication with the **Borrower**; and



- use of outside counsel to document the relationship.

While relationships do not have to be hostile, the **Special Servicer's** relationship with the **Borrower** must be based with a view toward loss mitigation. If the **Non-Performing Mortgage Loan** is non-recourse to the **Borrower**, immediate action is necessary to ensure that the **Property** is not allowed to deteriorate and that net operating income is accounted for and paid each month. Depending on the jurisdiction, the monthly net operating income (gross monthly income after payment of ordinary and customary operating expenses – exclusive of capital expenditures, repairs, or payments to **Borrower's** affiliates) should be paid directly to the **Servicer** for remittance to Fannie Mae or held by a receiver until the delinquency is resolved.

2. Engagement of Counsel

The foreclosure process begins with the engagement of outside counsel in the **Property** jurisdiction as provided in **Part V, Chapter 7: Non-Performing Mortgage Loans, Section 710: Engagement of Legal Counsel**; however, some of the preliminary notices prior to foreclosure (for example, notice of default, intent to accelerate, or acceleration) may be prepared by the **Special Servicer's** in-house counsel. Generally, the **Special Servicer** will direct outside counsel to:

- send or cause to be sent to the **Borrower** a formal written notice of default or other preliminary notices required prior to foreclosure;
- take immediate action to get control of the net operating income; and
- commence foreclosure.

Outside counsel must furnish the **Special Servicer** with copies of all documents that are sent to the **Borrower** or filed with a court (with copies to the **Servicer** on **Primary Risk Mortgage Loans**, and to Fannie Mae on **Secondary Risk Mortgage Loans**) in connection with the foreclosure and any related bankruptcy or other litigation, so that all parties may stay apprised of the status of the foreclosure.

3. Appraisal

If an **Appraisal** is required as part of the foreclosure process or any related bankruptcy or litigation, the **Special Servicer** will engage the appraiser using the Form Letter of Engagement for Appraiser (**Form 4814**). If the **Special Servicer** determines that the **Appraisal** should be covered by the attorney-client privilege and kept confidential, the



Special Servicer should request either outside counsel or its in-house counsel to send the Engagement Letter for Appraiser. Prior to engaging the appraiser under the attorney-client privilege, the **Special Servicer** should confirm with outside counsel whether the privilege is likely to apply and what, if any, additional steps would be required to better ensure the protection of the attorney-client privilege. For **Secondary Risk Mortgage Loans**, if the **Special Servicer** elects to change the instructions to the appraiser, such request must be included in the SWAT. The cost for this **Appraisal** is a Delinquency Resolution Cost.

4. Postponement of Foreclosure Sale

Because a foreclosure sale may be postponed due to an impending workout or other alternative **Course of Action**, or a bankruptcy or other litigation, the **Special Servicer** must notify outside counsel to confirm the foreclosure sale prior to the scheduled foreclosure date. If the foreclosure sale is to be postponed, the **Special Servicer** will provide outside counsel with a new sale date, place, and time of the sale.

712.04B REO Management

1. Maximization of Value of REO

Following foreclosure or other acquisition of title to the **Property**, the **Special Servicer** must diligently attempt to maximize the value of any **REO** acquired with an objective of ensuring that the physical and economic occupancy of the **REO** is at or above that of comparable property located in the same market as the **REO**.

2. “Walk Through” Report

To maximize the value of an **REO**, the **Special Servicer** must prepare a "walk-through" report detailing the rental status and condition of each unit with recommendations for repair and cost estimates for such repair. (With respect to individual units in a cooperative property, the **Special Servicer** will not be required to inspect any unit that is not sponsor-owned, vacant, or otherwise permitted to be inspected pursuant to applicable **Loan Documents**.) This report will be the basis for a management and marketing plan to be prepared by the **Special Servicer** (for **Secondary Risk Mortgage Loans**, this will be part of a SWAT submission).

3. Management and Market Plan

The management and marketing plan must include, at a



minimum:

- staffing requirements;
- policies regarding tenant applications;
- due diligence;
- credit and previous history;
- late charges;
- returned checks;
- collection of delinquent rents;
- advertising;
- maintenance procedures;
- security deposits;
- rental collections and make-ready procedures;
- comparable rental data;
- information regarding target markets;
- tenant profiles and updated reports when necessary; and
- plans for repairing and restoring the REO to marketable condition, with improvements carefully underwritten to avoid over-improvements to the REO in comparison with similar property in the same market as that in which the REO is located.

4. Timing of “Walk Through” Report and Management and Marketing Plan

It is expected that under ordinary circumstances, the time frame for maximizing the value must not exceed more than six (6) months from the date of acquisition of title to the REO.

The "walk-through" report and management and marketing plan must be in writing and part of the [Special Servicer's Servicing File](#). The report and plan must be completed within one (1) month after the date of acquisition of title to the REO and become a part of Fannie Mae's files for [Primary Risk Mortgage Loans](#) or contained in a SWAT submitted with respect to a [Secondary Risk Mortgage Loan](#). The [Special Servicer](#) must manage and dispose of the REO in accordance with such management and marketing plan. The REO management and marketing plan must be updated as changed circumstances require



and, if a [Secondary Risk Mortgage Loan](#), resubmitted to Fannie Mae as an updated SWAT, either upon the earlier of:

- as new information is available to the [Special Servicer](#) as to the management or marketing of the [REO](#); or
- every six (6) months.

712.05 Description of Contractual Relationships

712.05A Two Contractual Relationships

In resolving delinquencies, two distinct and separate contractual relationships are involved, as follows:

- One is the [Borrower](#)/noteholder (Fannie Mae) relationship evidenced by the [Loan Documents](#).
- The other is the Fannie Mae/[Lender](#) relationship evidenced by the [Lender's Contract](#) and the [Guide](#).

When the [Borrower](#) is in default on the [Mortgage Loan](#), the [Borrower](#) is in default under its contractual relationship with Fannie Mae as the noteholder. The [Lender's Delinquency Advance](#) of the scheduled [Mortgage Loan](#) payments is based on the [Lender's Contract](#) with Fannie Mae and does not cure any default under the [Mortgage Loan](#) nor advance the [LPI](#) date. The difference between the actual payment made by the [Borrower](#) and the scheduled payment made by the [Lender](#) is part of the final settlement of loss that is governed by the [Lender's Contract](#).

712.05B No Disclosure of Lender's Contract Terms to Borrower; Borrower Not a Third-Party Beneficiary of Lender Contract

Neither the [Lender](#) nor the [Servicer](#) (if not the same) must discuss the Fannie Mae/[Lender](#) contractual relationship with the [Borrower](#). If the [Borrower](#) does not make a payment, regardless of whether the [Lender](#) makes a [Delinquency Advance](#) of the scheduled payment to Fannie Mae as part of its contractual obligation, the [Mortgage Loan](#) must be reported as delinquent by the [Servicer](#) and Fannie Mae's records will reflect the [Mortgage Loan](#) as delinquent. The [Borrower](#) is not a party to, nor a beneficiary of, the [Lender's Contract](#) between Fannie Mae and the [Lender](#). The [Lender's](#) obligation to make [Delinquency Advances](#) to Fannie Mae has no impact on the [Borrower's](#) obligation to make its payments under the terms of the [Note](#).



712.05C Primary Risk Mortgage Loans

Because the **Lender** does not retain an interest in the **Mortgage Loan** after selling the **Mortgage Loan** to Fannie Mae, for **Primary Risk Mortgage Loans** the **Lender** does not have the authority to take any actions that may impair Fannie Mae's rights or remedies, without Fannie Mae's prior written approval, including, but not limited to:

- making representations on behalf of Fannie Mae;
- waiving rights or remedies of Fannie Mae under the **Loan Documents**;
- modifying or altering the **Loan Documents**; or
- voting or making elections for Fannie Mae in any bankruptcy court proceeding.

712.05D Secondary Risk Mortgage Loans

For **Secondary Risk Mortgage Loans**, the scope of the **Special Servicer's** authority to take any actions on behalf of Fannie Mae shall be expressly provided in the limited power of attorney granted by Fannie Mae.

712.06 Asset Audits for Secondary Risk Mortgage Loans

712.06A Purpose of Asset Audits

An Asset Audit involves much of the same due diligence as the **Lender** performs during underwriting. This "re-underwriting" is essential to determine:

- the cause of the default;
- the current financial condition of the **Borrower**;
- the condition of the **Property**;
- the current market;
- the current condition of the **Property** management; and
- the cost of curing the default, including sources and uses of funds.

712.06B Personnel Performing Asset Audits



The Asset Audit must be conducted by experienced workout staff of the **Servicer** who are not the same personnel as those who inspected the **Property** and prepared any asset review for the **Lender** when the **Mortgage Loan** was originated.

712.06C Timing of Asset Audits

Simultaneously with pursuing the Dual Track Approach, the **Servicer** must submit an Asset Audit to Fannie Mae **Special Asset Management** within 60 calendar days after the **Date of Default** as part of the SWAT.

Portions of the Asset Audit may take longer than 60 days, such as an environmental assessment and a lead-based paint risk assessment for any **Property** built before December 31, 1978. If this is the case, all of the information available by the 60th day after the **Date of Default** must be given to Fannie Mae **Special Asset Management**. The **Servicer** may submit a supplement to the Asset Audit as soon as the incomplete items are received. This process will enable Fannie Mae **Special Asset Management** to become aware of the major issues related to the **Mortgage Loan** default.

If the **Servicer** fails to timely provide a completed Asset Audit to Fannie Mae, Fannie Mae reserves the right to perform the Asset Audit itself or through a third party and assess the **Servicer** for the cost of the Asset Audit.

712.06D Content of Asset Audits

The Asset Audit must contain, at a minimum, the following:

- a determination of whether the default was economic-related or management-related;
- an on-site inspection to determine the physical condition and occupancy-level of the **Property**;
- photographs of the **Property**, improvements, and surrounding properties;
- an income and expense analysis of the **Property**, including a review of rent collection performance, historical expense levels, and contributions of capital by the **Borrower** (or its partners, members or shareholders);
- an analysis of the **Property** relative to the market;
- a thorough analysis of the original underwriting file and the



executed Loan Documents;

- an interview of the Key Principals or Principals of the Borrower and the Property management agent to determine the reason for the default and the likelihood and timing of a cure of the default by the Borrower;
- an assessment of the physical condition of the Property to determine whether maintenance of the Property has been deferred that would result in safety or liability concerns and the cost of necessary repairs;
- an environmental assessment, if applicable (see special requirements for environmental assessment in this Section);
- a review of the Borrower's payment history to determine compliance with the terms of the Note;
- a review of the Collateral Agreements for Completion/Repair, Replacement Reserves, Achievement, and Deficit Operation and payment activity to determine whether the reserves were adequately funded and whether the Borrower attempted to maintain the Property in marketable condition;
- a review of the tax and insurance deposits to ensure that payments are current;
- a title insurance update or bring-down to determine whether unauthorized second mortgages or other unauthorized encumbrances exist, or unauthorized transfers have occurred;
- a review of the ability of the Property management agent or of the ability of the Borrower to manage the Property, if owner-managed; and
- a review of the financial capability of the Key Principals or Principals to determine if additional capital is available.

The results of the Asset Audit must be documented in a concise memorandum format for use by all those involved in the selection of a Course of Action.

712.06E Pre-Negotiation Letter

Attached as an exhibit to the Pre-Negotiation Form Letter (NOI)



and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter (Form 4812) is a checklist of items and documents to request from the Borrower that will assist the Servicer in conducting the Asset Audit. An Asset Audit may, in the Servicer's discretion, be dispensed with if the Performance or Payment Default is reasonably determined to be technical in nature or readily susceptible of cure. For example, if the Payment Default results from an inadvertent administrative error in mailing the monthly payment, or if the monthly payment is lost in the mail, an Asset Audit would not be required if the Payment Default is cured within 60 days after the Date of Default. If the Payment Default is not cured within 60 days, the Asset Audit is due as soon as possible after the end of the 60-day period.

712.06F Special Requirements for the Environmental Assessment

1. Required Statement in Asset Audit

After reviewing the environmental assessment performed at Mortgage Loan origination and conducting a current on-site inspection to review any items noted in the original assessment done at Mortgage Loan origination, the Asset Audit must contain either:

- a statement that there is no material, adverse change in the results of the Phase I ESA or Phase II ESA, if applicable, or no noncompliance with any O&M requirements; or
- a statement that there is a material, adverse change in the results of the Phase I ESA or Phase II ESA, if applicable, or noncompliance with any O&M requirements and a description thereof.

2. Asset Audit Shows Material, Adverse Change

If the Asset Audit reflects a material, adverse change in the environmental condition of the Property, the Servicer must obtain another Phase I ESA or Phase II ESA, if applicable. Even if the Asset Audit does not reflect a material, adverse change, upon review of the Asset Audit by Fannie Mae, Fannie Mae may require the Servicer to obtain another Phase I ESA or Phase II ESA.

3. Engagement of Environmental Consultant

If another environmental assessment is required to be obtained, the Servicer must engage the environmental consultant using the Form Letter of Engagement for Environmental Consultant (Form 4815) unless the Servicer determines that the new Phase I ESA or



Phase II ESA should be covered by the attorney-client privilege and kept confidential. If attorney-client privilege is desired, the **Servicer** must request either outside counsel or its in-house counsel to send the Engagement Letter for Environmental Consultant. Prior to engaging the environmental consultant under the attorney-client privilege, the **Servicer** must confirm with outside counsel whether the privilege is likely to apply and what, if any, additional steps would be required to better ensure the protection of the attorney-client privilege.

4. Cost of Environmental Assessment

The cost of the environmental assessment is considered a Delinquency Resolution Cost.

712.07 Dual Track Timeline

This timeline is hypothetical and represents the typical time frames that should be followed for all **Non-Performing Mortgage Loans**. Specific defaults may require action to be taken sooner or be delayed. For example, the **Borrower** may have filed for bankruptcy protection and, therefore, the Dual Track timeline must be implemented on an accelerated basis or delayed basis. As provided in **Part V, Chapter 7: Non-Performing Mortgage Loans, Section 710.01: Fannie Mae Retains Legal Counsel**, the default resolution process remains a case-specific process and not every case will fit perfectly into this approach and timeline; however, to the extent this Chapter or the **Guide** requires certain actions to be taken within a specific time period, those specific time periods are required.

Date	Track 1	Track 2
March 1	<ul style="list-style-type: none">• Borrower's Mortgage Loan payment is due. Servicer could technically send out a default notice on the 2nd; but, as a practical matter would not unless Servicer knew Borrower was not going to pay.• <u>Or</u>, Lender becomes aware of Borrower default in performance of its non-monetary obligations under the Mortgage Loan.	



Date	Track 1	Track 2
March 2 - 31	<ul style="list-style-type: none"> • Servicer calls Borrower to find out cause of missed payment or default and whether default will be cured by the end of the month or if default will continue into the 2nd month [April]. • If non-monetary default requires notice to Borrower to begin cure time, Servicer sends written notice of default to Borrower. 	<p>The Servicer may contact Fannie Mae Special Asset Management or its Fannie Mae Representative at any time prior to charging the Late Fee to discuss default resolution and whether the Borrower will be able to cure the default. The recommendation of an early transfer to Special Servicing may be discussed.</p>
March 11 (or day when Late Fee can be assessed)	<p>If payment is not received, Borrower is subject to a Late Fees.</p>	
March 11 (or day after Late Fee can be assessed)	<p>If no payment is received, then, under Servicer's letterhead, send out Multifamily No Payment Received Letter – Fees (Optional) Assessed (Form 4807).</p>	
March 11 - 30	<p>If full payment received after Late Fee can be assessed, under Servicer's letterhead, send out Multifamily Late Payment Letter – Fees (Optional) Assessed (Form 4805).</p>	



Date	Track 1	Track 2
	<p>If partial payment received after Late Fee is incurred, under Servicer's letterhead, send out Multifamily Partial Payment Letter – Fees (Optional) Assessed (Form 4806).</p>	
<p>March 17</p>	<p>Servicer reports status of defaulted Mortgage Loans via Multifamily Delinquency System and certifies that all Non-Performing Mortgage Loans have been reported.</p>	
	<p>Before meeting with Borrower to discuss a potential workout, have Pre-Negotiation Form Letter (NOI and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter (Form 4812) executed by Borrower, Servicer, Fannie Mae or Lender.</p>	
<p>March 18 - 31</p>		<ul style="list-style-type: none"> • If Primary Risk, the Mortgage Loan will be special serviced by Fannie Mae. • If Secondary Risk, the Servicer will perform the special servicing.



Date	Track 1	Track 2
March 31	If full payment is not received by end of month, and if permitted by the Mortgage Loan documents, default interest starts and is imposed from the Date of Default [March 1].	
April 1	Borrower's next Mortgage Loan payment is due.	
April 1 - 30	Servicer continues dialogue with Borrower to assess whether default will be cured by end of month or if default will continue into the 3rd month [May].	Fannie Mae remains in contact with the Servicer to discuss collection efforts and whether the Borrower will be able to cure the default. The recommendation of an immediate transfer to Special Servicing may be discussed.
April 15	Due diligence begins for Servicing Transfer Memo/SWAT ; will likely involve meeting with Borrower to obtain factual information and documents.	



Date	Track 1	Track 2
April 10 - 30	<ul style="list-style-type: none"> • For Primary Risk Mortgage Loans Servicer completes Servicing Transfer Memo and forwards to Fannie Mae Special Asset Management. Fannie Mae Special Asset Management and Servicer complete Asset Review. • For Secondary Risk Mortgage Loans Servicer completes SWAT and forwards to Fannie Mae Top Loss Special Asset Management. • An Asset Audit should be completed and forwarded to Fannie Mae Top Loss Special Asset Management if the Course of Action selected on the SWAT is Foreclosure. 	
May 1		<ul style="list-style-type: none"> • If payment is not received, Engagement of Counsel Letter is executed. • Once legal counsel is engaged, all written correspondence with Borrower must be from legal counsel.



Date	Track 1	Track 2
May and June	For Primary Risk Mortgages , Fannie Mae will select Course of Action , unless Lender elects a Lender Purchase or Lender Workout . For Secondary Risk Mortgages , Servicer will select Course of Action in accordance with the approved SWAT.	Legal counsel starts process to enforce assignment of rents and begins foreclosure process.
	Election of remedies implemented.	<ul style="list-style-type: none"> • Primary Risk Mortgage Loans: Foreclosure action continues regardless of Course of Action unless Joint Workout is elected by Fannie Mae and Lender. In that case foreclosure sale would be rescheduled until workout is completed (subject to applicable law). • Secondary Risk Mortgage Loans: SWAT is approved and unless a Joint Workout is approved, the Foreclosure action continues. The Lender purchases the Secondary Risk Mortgage Loan from Fannie Mae either prior to or immediately following the foreclosure sale.



Section 713 Loss Sharing and the Appraisal Process in connection with a Foreclosure Event

713.01 General

713.01A Appraisal Required; Defined Terms

An [Appraisal](#) of the [Property](#) is required in connection with any [Foreclosure Event](#) for a [Mortgage Loan](#) that is subject to Loss Sharing. Capitalized terms in this Section not otherwise defined in the Glossary, shall have the meanings ascribed to them in the Loss Sharing Addendum. In the event of a conflict between the Loss Sharing Addendum and the [Guide](#), the Loss Sharing Addendum will control.

713.01B Compliance with Loss Sharing Addendum

Each [Appraisal](#) must comply with the requirements of the [Guide](#) and the Loss Sharing Addendum. As used in this Section with regard to any required [Appraisal](#), a “manifest error of fact” refers solely to a factual error or omission by the appraiser (such as a math error or an inaccurate reference to the county or other jurisdiction of the [Property](#) location), and not to any disagreement with the appraiser’s discretionary decisions or determinations (such as the appraiser’s use of a particular capitalization rate, comparable properties, or market adjustments).

713.01C Approved Appraisers

Each appraiser engaged to prepare an [Appraisal](#) pursuant to this Section must be approved by Fannie Mae. Periodically, the [Lender](#) must submit the names and, if requested by Fannie Mae, qualifications of its preferred appraisers to Fannie Mae for approval. Fannie Mae and the [Lender](#) each will maintain a current list of all approved appraisers who may provide an [Appraisal](#) under this Section.

713.01D Appraisal Requirements

The following applies to any [Appraisal](#) obtained pursuant to this Section.

- Each [Appraisal](#) and appraiser must comply with [Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation](#).



- The **Lender** must provide the Appraiser Engagement Instruction Form (**Form 4825**) when engaging an appraiser to perform an initial **Appraisal**.
- Fannie Mae will use Engagement Letter for Appraiser (**Form 4823** or **Form 4826**) or Engagement Letter for Review Appraiser (**Form 4824**) to engage an appraiser performing an initial **Appraisal** or a subsequent **Appraisal** (as applicable).
- All communication with a jointly engaged appraiser regarding the valuation of the **Property** must include joint participation by members of the appraisal review groups from both Fannie Mae and the **Lender**.
- If the **Property** has unused **Low-Income Housing Tax Credits** or other tax credits that transferred to Fannie Mae as a result of a **Foreclosure Event**, the **Asset Value** as of the **Asset Valuation Date** will be the greater of (i) the value of the **Property** “as restricted”, plus the value of the unused tax credits, or (ii) the “as-is” market value of the **Property**. Fannie Mae and the **Lender** will engage either the appraiser or another third party to value such unused tax credits.
- Both Fannie Mae and the **Lender** must use an independent appraisal review group to allow appropriate communication with the appraisers, and to ensure consistent valuation practices and quality control. The appraisal review group may be either:
 - employees of Fannie Mae or the **Lender**, such as multifamily mortgage underwriters, who are not required to hold state appraisal licenses or certifications, but who are independent from their employers’ asset management and special servicing functions; or
 - an independent third-party appraisal firm.
- Fannie Mae and the **Lender** will provide to each engaged appraiser the most recent of the **Property’s** engineering, environmental, and **Property Condition Assessment** reports; each of which will be obtained jointly using the standard Engagement Letter for Engineering Consultant (**Form 4821**) or Engagement Letter for Environmental Consultant (**Form 4822**).



- If the Foreclosure Event is delayed, or if the Asset Valuation Date is not within 90 days after the date of the Appraisal that determines the Asset Value for Loss Sharing, either Fannie Mae or the Lender may require that the Appraisal be updated to reflect the Property's value as of the Asset Valuation Date. Any Property Condition Assessment or Phase I Environmental Site Assessment used for the first Appraisal may be updated if either Fannie Mae or the Lender requires the Appraisal to be updated.

Following the receipt by the Lender of the Appraisal Notice referred to in this Section, if the Lender fails to cause an Appraisal to be conducted in accordance with the applicable timeline for the Single Appraisal Approach or the Dual Appraisal Approach, the Property's Appraised Value will be determined exclusively by an appraiser selected by Fannie Mae, and the Lender will be deemed to have waived any right to challenge such valuation. Updates required due to material changes in market or Property conditions, including, but not limited to, changes in access and control of the Property, will be addressed on a case by case basis.

Nothing shall prohibit Fannie Mae from ordering its own Appraisal, Property Condition Assessment, or Phase I Environmental Site Assessment in conjunction with its activities as the Special Servicer for the Mortgage Loan (e.g., for litigation contesting the Property's Appraised Value, to determine foreclosure bidding strategy, in connection with a Borrower's bankruptcy action, or other similar needs). However, any Appraisal, Property Condition Assessment, or Phase I Environmental Site Assessment obtained to determine the Asset Value must be obtained in accordance with this Section.

713.01E Appraisal Notice and Election of Appraisal Methodology

If an Appraisal is required to determine the Property's Asset Value for any reason, including the commencement of the process described in Part V, Chapter 7: Non-Performing Mortgage Loans in connection with a Foreclosure Event, Fannie Mae will notify the Lender (the "Appraisal Notice").

Within 4 Business Days after receipt of the Appraisal Notice from Fannie Mae, the Lender must elect, by written notice (e.g., e-mail) to its Fannie Mae Representative in Special Asset Management, to use either the Single Appraisal Approach or the Dual Appraisal Approach. Once made, the Lender's election will be binding on the Lender and Fannie Mae with respect to that Property and Mortgage Loan, and may



not be changed unless mutually agreed upon in writing.

If the **Lender** fails to elect an **Appraisal** approach within the allotted time period, the Single Appraisal Approach will be used. However, if the **Lender** elects the Single Appraisal Approach, and Fannie Mae and the **Lender** are unable to jointly select and engage an appraiser as required by this Section, the Dual Appraisal Approach will be used.

713.02 Single Appraisal Approach

This Section outlines the recommended timeline and process to obtain an **Appraisal** using the Single Appraisal Approach, as further described in the Loss Sharing Addendum. Several variables may alter this timeline; however, the objective is to obtain a final **Appraised Value** as of the **Asset Valuation Date**.

713.02A Single Appraisal Approach Timeline

1. Fannie Mae will order any required **Property Condition Assessment** or **Phase I Environmental Site Assessment** within 4 **Business Days** after the **Appraisal Notice**, using the Engagement Letter for Engineering Consultant (**Form 4821**) or the Engagement Letter for Environmental Consultant (**Form 4822**).
2. The **Lender** will submit to Fannie Mae a short list of 2 or 3 preferred appraisers from the **Lender's** list of approved appraisers.
3. Fannie Mae will select an appraiser from the **Lender's** short list within 8 **Business Days** after its **Appraisal Notice**, and the appraiser will be engaged jointly by Fannie Mae and the **Lender** pursuant to the standard Engagement Letter for Appraiser (Joint Engagement) (**Form 4823**). Fannie Mae and the **Lender** will provide the appraiser with all appropriate information reasonably required to complete the **Appraisal** in a timely fashion.
4. The appraiser should be instructed to deliver the draft **Appraisal** within 20 **Business Days** after engagement.

713.02B Draft Appraisal Review

1. Fannie Mae and the **Lender** will each complete a review of



the draft [Appraisal](#) within 10 [Business Days](#) after receipt. A joint conference call may be held with the appraiser, if requested by either Fannie Mae or the [Lender](#). If either Fannie Mae or the [Lender](#) determines it is necessary, review comments and pertinent factual information will be provided to the appraiser and the other party. The joint conversation and information delivery are expected to occur within 15 [Business Days](#) after receipt of the draft [Appraisal](#).

2. The appraiser should be instructed to deliver the revised draft [Appraisal](#) within 5 [Business Days](#) of receipt of comments and information.
3. Fannie Mae and the [Lender](#) will each complete a review of the revised draft [Appraisal](#) within 5 [Business Days](#) after receipt.

713.02C Acceptable Draft Appraisal

If the draft [Appraisal](#) is acceptable to both Fannie Mae and the [Lender](#), the draft [Appraisal](#) will be finalized and the final [Appraised Value](#) will be the [Asset Value](#). Prior to issuing the final [Appraisal](#), the appraiser may address any factual errors or other issues that both parties agree should not materially impact the [Appraised Value](#). The appraiser will be expected to deliver the final [Appraisal](#) within 5 [Business Days](#) of the request for the final [Appraisal](#).

713.02D Non-Acceptable Draft Approach

1. If either Fannie Mae or the [Lender](#) does not accept the draft [Appraisal](#) and believes that discussions with the appraiser would not result in an acceptable [Appraisal](#), notice will be given to the other party that the [Appraisal](#) is unacceptable. Within 8 [Business Days](#) after either party receives such notice:
 - a second appraiser will be selected by Fannie Mae from the [Lender's](#) list of approved appraisers;
 - the second appraiser will be engaged jointly by Fannie Mae and the [Lender](#) pursuant to the standard Engagement Letter For Review Appraiser (Joint Retention) ([Form 4824](#)); and
 - the first [Appraisal](#), written comments by Fannie Mae



and the Lender (if any), and pertinent Property information will be shared with the second appraiser.

2. The second appraiser will examine the first Appraisal, and then initiate a joint call with representatives of Fannie Mae and the Lender within 10 Business Days after delivery of the first Appraisal and supplemental information.
3. The second appraiser will develop an independent opinion of the Asset Value as of the Asset Valuation Date, and prepare an Appraisal consistent with the Engagement Letter for Review Appraiser (Joint Retention) (Form 4824). The second appraiser should be instructed to deliver the Appraisal within 15 Business Days after the joint conference call.
4. The second Appraisal will be accepted, and the Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender, unless there is a manifest error of fact in the second Appraisal.
5. If either Fannie Mae or the Lender determines that the second appraiser has made a manifest error of fact, the correct factual information will be provided to the appraiser and the other party within 10 Business Days after receiving the second Appraisal.
6. The second appraiser will be expected to deliver a corrected final Appraisal within 5 Business Days after being advised of a manifest error of fact in the second Appraisal.
7. The corrected final Appraisal will be accepted, and the final Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender.

713.03 Dual Appraisal Approach

This Section outlines the recommended timeline and process to obtain an Appraisal using the Dual Appraisal Approach, as further described in the Loss Sharing Addendum. Several variables may alter this timeline; however, the objective is to obtain a final Appraised Value as of the Asset Valuation Date.

713.03A Dual Appraisal Approach Timeline



1. Fannie Mae will order any required **Property Condition Assessment** or **Phase I Environmental Site Assessment** within **4 Business Days** after the **Appraisal Notice**, using the **Engagement Letter for Engineering Consultant (Form 4821)** or the **Engagement Letter for Environmental Consultant (Form 4822)**.
2. The **Lender** and Fannie Mae will each select and engage an appraiser from their individual lists of approved appraisers within **8 Business Days** after the **Appraisal Notice**. The **Lender** will engage its appraiser pursuant to the standard **Appraiser Engagement Instruction Form (Form 4825)**, and Fannie Mae will engage its appraiser pursuant to the standard **Appraiser Engagement Letter for Appraiser (Fannie Mae Retention) (Form 4826)**.
3. Each appraiser should be instructed to deliver a final **Appraisal** within **35 Business Days** after both appraisers have been engaged. Fannie Mae and the **Lender** will share copies of their respective final **Appraisals** with each other.

713.03B Average of Appraised Values

If the **2 Appraised Values** differ by 10% or less, the average of the **2 Appraised Values** will be the **Asset Value** for Loss Sharing.

713.03C Third Appraisal

1. If the **2 Appraised Values** differ by more than 10%, within **4 Business Days** after receipt of the final **Appraisals**:
 - a third appraiser will be selected by Fannie Mae from the **Lender's** list of approved appraisers;
 - the third appraiser will be engaged jointly by Fannie Mae and the **Lender** pursuant to the standard **Engagement Letter for Review Appraiser (Joint Retention) (Form 4824)**; and
 - the first **2 Appraisals**, written comments by Fannie Mae and the **Lender** (if any), and pertinent **Property** information will be shared with the third appraiser.
2. The third appraiser will initiate a joint conference call with representatives from Fannie Mae and the **Lender** to



discuss the first 2 Appraisals within 10 Business Days after delivery of the first 2 Appraisals and Fannie Mae's and the Lender's comments.

3. The third appraiser will develop an independent opinion of the Asset Value as of the Asset Valuation Date, and prepare an Appraisal consistent with the Engagement Letter for Review Appraiser (Joint Retention) (Form 4824). The third appraiser should be instructed to deliver the Appraisal within 15 Business Days after the joint conference call.
4. The third Appraisal will be accepted and the Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender, unless there is a manifest error of fact in the third Appraisal.
5. If either Fannie Mae or the Lender determines that the third appraiser has made a manifest error of fact in its Appraisal, the correct factual information will be provided to the third appraiser and the other party within 10 Business Days after receiving the third Appraisal.
6. The third appraiser will be expected to deliver a corrected final Appraisal within 5 Business Days after being advised of a manifest error of fact.
7. The corrected final Appraisal will be accepted, and the final Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender.



GLOSSARY

■ **Collateral Agreement Custodial Accounts**

Custodial account established by the Servicer for depositing funds received from the Borrower for Collateral Agreements.

Synonyms

Collateral Agreement Custodial Account

■ **MBS Pool**

MBS Security backed by MBS Mortgage Loans.

Synonyms

MBS Pools

MBS Pool's

■ **PILOT**

Payment In Lieu Of Taxes.

Synonyms

PILOTs

■ **T&I Impositions**

Amounts for taxes, insurance, and other charges assessed against or owing on the Property which you deem necessary to protect the Property and/or prevent Liens imposed on it.



GLOSSARY

Eligible Depository

Any Federal Reserve Bank, Federal Home Loan Bank, or other depository institution that:

1. has its accounts insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or such other governmental insurer or guarantor as may be acceptable to Fannie Mae;

2. is rated as “well capitalized” by its applicable federal or state regulator or, if not rated by a federal or state regulator, satisfies the capital requirements that would apply for categorization as “well capitalized” under federal or state regulations; and either

3. for any depository institution with assets of \$20 billion or more, has a financial rating that meets or exceeds only 1 of the following criteria if the institution is rated only by S&P or only by Moody’s, provided that if the institution is rated by both S&P and Moody’s, it must satisfy both subsections (a) and (b) below:

a. a short term issuer rating by S&P of “A 2” and a long term issuer rating of “BBB” by S&P;

b. a short term bank deposit rating by Moody’s of “P 3” and a long term bank deposit rating of “Baa2” by Moody’s; or

c. satisfies any other standard determined by Fannie Mae, provided that such other standard is comparable to the rating requirements set forth above; or

4. for any depository institution with assets of less than \$20 billion, has a financial rating that meets or exceeds at least 1 of the following criteria:

a. a short term issuer rating by S&P of “A 2” and a long term issuer rating of “BBB” by S&P;

b. a short term bank deposit rating by Moody’s of “P 3” and a long term bank deposit rating of “Baa2” by Moody’s;

c. a financial rating of 175 by IDC Financial Publishing, Inc., or its successor;

d. a financial rating of C+ by Kroll Bond Rating Agency, Inc., or its successor; or



e. satisfaction of any other standard determined by Fannie Mae, provided that such other standard is comparable to the rating requirements set forth above.

If a depository institution satisfies the standards in clauses 1 and 2 and has a rating that meets or exceeds at least 1 of the ratings specified in clause 3 or 4, as applicable, that depository institution will be considered an “Eligible Depository” even if another organization rates such depository institution below the minimum level specified in such clause.