



Fannie Mae®

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# Multifamily Selling and Servicing Guide

Effective as of May 2, 2022

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## Summary of Changes

HIGHLIGHTS
<b>Effective for Mortgage Loans Delivered on or after May 2, 2022</b> , the site inspection and lease audit information was updated.

### Primary Changes

In Part II, Chapter 4: Inspections and Reserves, the site inspection and lease audit information was updated for:

- performing a lease audit to confirm inspection results;
- randomly selecting units for inspection;
- confirming the occupancy of inspected units; and
- confirming the inspector's findings during your lease audit.

### Questions

Please contact the Fannie Mae Deal Team with any questions.



## Chapter 4

## Inspections and Reserves

### Section 401

### Site Inspection and Lease Audit

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#### Requirements

Before the **Commitment Date**, you must ensure:

- a physical inspection of the **Property** was performed by
  - you, or
  - a Non-Employee or Outside Party per the **Program Rules**; and
- the **MBA Standard Inspection Form** was completed; and
- a lease audit was conducted reconciling the inspection findings with the
  - rent roll, and
  - lease terms.

You must ~~not Deliver any Mortgage Loan secured by a Property that has an overall rating of "4" or "5" per the Comprehensive Assessment tab of:~~

- randomly select Property units for inspection; and
- not Deliver any Mortgage Loan secured by a Property that has an overall rating of 4 or 5 per the Comprehensive Assessment tab of the MBA Standard Inspection Form.

If the **MBA Property's Standard Inspection Form**, rent roll indicates an inspected unit is occupied:

- the inspector must confirm the unit is occupied; and
- you must:
  - confirm the inspector's findings during your lease audit; and
  - complete a lease audit form or document your reconciliation of lease terms with the rent roll.



## → Guidance

### When auditing the leases:

- include a:
  - minimum of 5 leases; and
  - maximum of the lesser of
    - 30 leases, or
    - 10% of the leases;
- at least 50% of the audited leases should include a combination of
  - inspected units,
  - recent renewals, and
  - newly signed leases sufficient to verify rent trends;
- if you detect material discrepancies during the initial review, increase the number of lease reviews;
- include a tenant file review; and
- review the cash ledger or receipts journal to validate rent collections.

## Section 402 Property Condition Assessment (PCA)

### 402.01 When to Perform a PCA

#### ☑ Requirements

Before the [Commitment Date](#), you must complete a PCA for each Property unless it is a Supplemental Mortgage Loan that complies with Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.05: Streamlined Underwriting.

### 402.02 Date of PCA Report and PCA Site Visit

#### ☑ Requirements

A PCA Report ([Form 4099](#)) containing an [HPB Module](#) (or any standalone HPB Report) must be dated as of the date of the site visit by the [PCA Consultant](#), and must be less than 6 months before the [Commitment Date](#).



A [PCA](#) report that does not include an [HPB Module](#) may be dated up to 12 months before the [Commitment Date](#) if you:

- ensure a site visit is performed within 90 days before the [Commitment Date](#); and
- confirm that there has been no material adverse change to the physical condition of the [Property](#) since the date of the [PCA](#) report.

### 402.03 Conducting the PCA

#### ☒ Requirements

When conducting the [PCA](#), you must:

- comply with [Form 4099](#), and order all applicable [PCA](#) modules;
- identify all conditions that impact resident safety, marketability, or value of the [Property](#); and
- properly mitigate those conditions.

If you retain a [PCA Consultant](#) that does not meet the educational qualifications or professional certifications, registrations, or training required by [Form 4099](#), you must:

- determine that the [PCA Consultant](#) is qualified based on their alternative qualifications; and
- attach your description of the [PCA Consultant](#)'s qualifications to the final [PCA](#).

You must have an annual quality control program to review

- the quality of the [PCAs](#) performed by your [PCA Consultant](#), and
- your compliance with the requirements in this Section and the [Form 4099](#).

## Section 403 Completion/Repairs

### 403.01 Property Evaluation

#### ☒ Requirements

You must determine whether the [Borrower](#) will need to fund the [Completion/Repair Escrow](#) by evaluating



- the physical condition of the **Property**,
- the financial condition of the **Borrower**, and
- all necessary life safety **Completion/Repairs**.

You must include the estimated expense of all **Completion/Repairs** with the cost of all other **Rehabilitation Work** to determine whether you need to follow the requirements of **Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans** for a **Moderate Rehabilitation Property**.

### Guidance

The **Completion/Repair Agreement** **Completion/Repair Schedule** should include:

- **property** **Property** needs identified as Immediate Repairs in the **PCA**, including:
  - life safety repairs;
  - critical repairs;
  - deferred maintenance; and
  - short-term replacement of capital items; and
- any capital improvements not recommended by the **PCA Consultant** that
  - the **Borrower** will make after the **Mortgage Loan Origination Date**, and
  - you want the appraiser to include in its opinion of the market value of the **Property** on an “as completed” basis.

You should ensure that the **Borrower** completes the repairs and improvements identified on the **Completion/Repair Agreement** **Completion/Repair Schedule** as outlined below.

Type of item...	Complete as follows...
For items identified as life safety repairs in the PCA	Comply with <b>Part II, Chapter 4: Inspections and Reserves, Section 403.03: Life Safety Issues</b> .



For items identified as critical repairs in the PCA	Within 6 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
<u>For items identified as repairs required to comply with the Americans With Disabilities Act in the PCA</u>	<u>Within 90 days or less per applicable laws, ordinances, or building codes.</u>
For items identified as deferred maintenance or items of note in the PCA	Within 12 months after the Mortgage Loan Origination Date, or sooner if recommended by the PCA Consultant.
For items identified as short term replacement of capital items in the PCA	By the specific date recommended by the PCA Consultant, but may be longer than 12 months after the Mortgage Loan Origination Date.
For capital improvements that are <ul style="list-style-type: none"> <li>• to be made by the Borrower in addition to those included on the PCA, and</li> <li>• are included in the Appraisal opinion of the market value of the Property on an “as completed” basis</li> </ul>	Comply with Part II, Chapter 2: Valuation and Income, Section 201.02C: Appraised Value.
For items identified as a Completion/ Repair by the PCA when the estimated expense requires you to comply with Part III, Chapter 3 for a Moderate Rehabilitation Property	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.
For all other Rehabilitation Work that was not identified as a Completion/Repair by the PCA	Comply with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.





## 403.02 Completion/Repairs Funding

### ✓ Requirements

When full or partial funding of the Completion/Repair Escrow is required, you must use a complete the Completion/Repair Agreement Completion/Repair Schedule.

### ➔ Guidance

The amount funded into the Completion/Repair Escrow on the Mortgage Loan Origination Date should be at least 125% of the estimated cost of the required Completion/Repairs.

You may choose not to fund the Completion/Repair Escrow entirely if you determine the Borrower has the financial capacity to fully address all Completion/Repairs in the PCA.

### ✓ Requirements

If you choose not to fund the Completion/Repair Escrow entirely, you must obtain written assurances from the Borrower in the Multifamily Loan Agreement that all necessary Completion/Repairs will be completed within a stated period of time following the Mortgage Loan Origination Date.

## 403.03 Life Safety Issues

### ✓ Requirements

You must ensure that all life safety repairs and remediation work for code violations are included in on the Completion/Repair Agreement Completion/Repair Schedule.

All life safety repairs must be completed

- for an acquisition, within 60 days after the Mortgage Loan Origination Date, or
- in all other cases, before delivering the Mortgage Loan to Fannie Mae.

### ➔ Guidance

You should consider requiring an escrow deposit (for at least 125% of



estimated costs) to cover these required Completion/Repairs.

#### 403.04 Verifying Completion/Repairs

##### ☒ Requirements

You must verify that the Borrower has made all required Completion/Repairs

- whether the Completion/Repair Escrow was funded or not, and
- during your Property inspections before the required completion date.

## Section 404 Replacement Reserve

#### 404.01 Determining Replacement Reserve

##### ☒ Requirements

You must ensure that the Borrower has sufficient reserves to cover anticipated capital replacement and major maintenance costs. The total amount in the Replacement Reserve should equal or exceed the anticipated costs (adjusted for inflation) of all necessary capital item replacements and major maintenance needs and repairs for the period from the Mortgage Loan Origination Date to whichever is sooner:

- 2 years after the Maturity Date of the Mortgage Loan; or
- 12 years after the Mortgage Loan Origination Date.

In order to determine the minimum amount of the Replacement Reserve, you must:

- Obtain a PCA (Form 4099).
- Complete the schedule of items to be included in the Replacement Reserve Schedule
  - using the cost estimates in the PCA, and
  - taking into account any items not already included in the ~~Completion/Repair Agreement~~ Completion/Repair Schedule.

#### 404.02 Replacement Reserve Funding



### Requirements

You must ensure that the costs of all items included in the [Replacement Reserve Schedule](#) have been fully funded for

- any [Tier 2 Mortgage Loan](#), and
- any [Mortgage Loan](#), regardless of [Tier](#), that requires [Completion/Repairs](#) costing more than
  - 4% of the [Property's Underwriting Value](#) for refinance transactions, or
  - 6% of the [Property's Underwriting Value](#) for acquisition transactions.

If you choose to modify the [Loan Documents](#) to not fund a [Replacement Reserve](#) for a [Tier 3](#) or [Tier 4 Mortgage Loan](#), you must use the appropriate [Replacement Reserve Schedule](#).

### Guidance

You may choose not to fund a [Replacement Reserve](#) for any [Tier 3](#) or [Tier 4 Mortgage Loan](#) if

- the required [Completion/Repairs](#) do not exceed the levels specified in this Section, and
- you determine that the [Borrower](#) has the financial capacity to fully address future capital expenditures as outlined in the [PCA](#).

## 404.03 Alternative Replacement Reserve Funding

### Guidance

Instead of full funding, you may choose this alternative method for funding the [Replacement Reserve](#).

### Requirements

If you choose this alternative funding, you must have the [Borrower](#) deposit the following amounts on the [Mortgage Loan Origination Date](#):

- Monthly deposits for at least 2 years.
- For any significant capital item replacement or major maintenance need that you deem appropriate, an amount sufficient to cover



anticipated costs for the period from the [Mortgage Loan Origination Date](#) to whichever is sooner:

- 2 years after the [Maturity Date](#) of the [Mortgage Loan](#); or
- 12 years after the [Mortgage Loan Origination Date](#).

You must hold these amounts in the [Replacement Reserve](#) for the entire term of the [Mortgage Loan](#), and may not make them available for refund to the [Borrower](#) until the [Mortgage Loan](#) has been paid in full.

## Section 405 Escrow Requirements for Taxes and Insurance

### 405.01 Escrows

#### Requirements

You must require any [Tier 2 Mortgage Loan Borrower](#) to make monthly escrow deposits for real estate taxes and insurance premiums.

### 405.02 Real Estate Tax Escrow Funding

#### Guidance

You may choose not to fund monthly escrow deposits for real estate taxes for a [Tier 3](#) or [Tier 4 Mortgage Loan](#).

#### Requirements

If you choose not to fund monthly deposits for real estate taxes then you must ensure all taxes are paid timely.

### 405.03 Insurance Escrow Funding

#### Guidance

You may choose not to fund monthly escrow deposits for insurance premiums for a [Tier 3](#) or [Tier 4 Mortgage Loan](#).

#### Requirements

If you choose not to fund monthly deposits for insurance premiums, you must require the [Borrower](#) to provide annual proof of payment of all insurance premiums.



## GLOSSARY

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### ■ Completion/Repairs

Immediate Repairs identified by the Property Condition Assessment and required by the Lender to be included in the Completion/Repair Schedule or Completion/Repair Agreement (or a Certificate of Borrower, if applicable).

#### Synonyms

Completion/Repair