



Multifamily Selling and Servicing Guide

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Summary of Changes

HIGHLIGHTS
Effective for Mortgage Loans Committed on or after July 26, 2022 , the Supplemental New Loan Test parameters were updated.

Primary Changes

To increase delegation, Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.03D: New Loan Test was updated.

- Eliminated the New Loan Test for Tier 3 and 4 Supplemental Mortgage Loans.
- Using Form 4660 for a fixed rate, first Lien, cash-out Mortgage Loan, the New Loan Test must:
 - be based on:
 - the current applicable minimum DSCR and maximum LTV;
 - Tier 2; and
 - 10-year maturity; and
 - for the interest rate, use the higher of:
 - the highest Total Credit Fees Range in the current "Indicative Pricing" table in DUS Gateway; or
 - Underwriting Interest Rate Floor, if applicable.

Questions

Please contact the Fannie Mae Deal Team with any questions.



Chapter 14 Supplemental Mortgage Loans

Section 1401 Description

Requirements

A Fannie Mae Supplemental Mortgage Loan is available for Properties with a Pre-Existing Mortgage Loan.

A non-Fannie Mae Subordinate Loan is only permitted for MAH Properties per Part III, Chapter 7: Multifamily Affordable Housing Properties.

For Moderate Rehabilitation Supplemental Mortgage Loans, see Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans.

Section 1402 Supplemental Mortgage Loans

1402.01 Description

Requirements

Product Description	
Lender Eligibility	You must be the Servicer of all Pre-Existing Mortgage Loans on the Property.
Ineligible Products	Hybrid ARM Loan
Loan History	Pre-Existing Mortgage Loan is not on the current Fannie Mae Watchlist.
Origination Date	At least 12 months must elapse between the origination dates of the most recent Pre-Existing Mortgage Loan and the Supplemental Mortgage Loan, unless the Loan Documents expressly permit a shorter time.



Product Description	
Maximum Number of Supplemental Mortgage Loans	<p>Only 1 Supplemental Mortgage Loan is permitted during the Senior Mortgage Loan term unless:</p> <ul style="list-style-type: none">• it is a Moderate Rehabilitation Supplemental Mortgage Loan;• it is a Green Rewards Supplemental Mortgage Loan where 100% of the proceeds are used to implement selected Efficiency Measures; or• the Property is sold to an unrelated new Borrower who assumes the Pre-Existing Mortgage Loan, and the closing and funding of the new Supplemental Mortgage Loan occurs concurrently with the Property sale and Pre-Existing Mortgage Loan assumption.
Minimum Supplemental Loan Term	<p>5 years provided that:</p> <ul style="list-style-type: none">• for Pre-Existing Mortgage Loans with a balloon payment at the Maturity Date, the Maturity Date of the Supplemental Mortgage Loan must not be before that of any Pre-Existing Mortgage Loan; and• for fully amortizing Pre-Existing Mortgage Loans, the Maturity Date of the Supplemental Mortgage Loan must not be before the latest Prepayment Premium Period End Date of any Pre-Existing Mortgage Loan.



Product Description	
Mortgage Loan Amount	Except per Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402.03: Loan Amount, you must determine the Underwritten NCF, Underwritten DSCR, and LTV per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products in Part III.
Replacement Reserve, Tax, and Insurance Escrows	<p>You must:</p> <ul style="list-style-type: none">• Calculate the Replacement Reserve, tax, and insurance escrows on the resulting Tier of the combined Pre-Existing Mortgage Loan and Supplemental Mortgage Loan.• Ensure that escrow funding established with the Pre-Existing Mortgage Loans does not decrease or cease.• Adjust the funding when necessary to meet current Tier 2 requirements for any Tier Dropping Supplemental Mortgage Loan if the combined Tier is Tier 2.
Cross-Default	Must be cross-defaulted with all Pre-Existing Mortgage Loans.
Interest Rate Type	<ul style="list-style-type: none">• Fixed rate, if the Pre-Existing Mortgage Loan has a fixed rate.• Fixed or variable rate, if the Pre-Existing Mortgage Loan has a variable rate.



Product Description	
UCC Financing Statements	<p>No new UCC Financing Statement is required for the Supplemental Mortgage Loan.</p> <p>If the Lien of the Senior Mortgage Loan is released before the Supplemental Mortgage Loan is repaid in full, you must file a UCC Financing Statement for the Supplemental Mortgage Loan in the appropriate public records office.</p>

➔ Guidance

You may increase Replacement Reserve, tax, and insurance escrow funding for a Supplemental Mortgage Loan if the Tier is unchanged from the Pre-Existing Mortgage Loans.

1402.02 Coterminous and Non-Coterminous

➔ Guidance

A Supplemental Mortgage Loan may have a Maturity Date that is either coterminous or non-coterminous with the Maturity Date of the Senior Mortgage Loan.

The Prepayment Premium Period End Date of a Supplemental Mortgage Loan need not coincide with the Prepayment Premium Period End Date of any Pre-Existing Mortgage Loan.

☑ Requirements

You must resubordinate any existing, non-coterminous Supplemental Mortgage Loan when refinancing a maturing Senior Mortgage Loan with Fannie Mae.

1402.03 Loan Amount

1402.03A Maximum Loan Amount

☑ Requirements

The maximum Supplemental Mortgage Loan amount equals the lowest



Mortgage Loan amount calculated per Sections 1402.03.B - 1402.03.D of this Chapter.

1402.03B Calculating the Debt Service

☒ Requirements

You must calculate the Supplemental Mortgage Loan amount based on the combined debt service amounts of all Pre-Existing Mortgage Loans plus the Supplemental Mortgage Loan, as outlined in the following tables.

Pre-Existing Mortgage Loans	
If the Interest Rate Type is...	Use an amortizing Debt Service Amount based on the...
Fixed Rate	Gross Note Rate.
Adjustable Rate	<ul style="list-style-type: none">• origination loan amount;• amortization term; and• Variable Underwriting Rate per the applicable Part III Chapters.

Supplemental Mortgage Loan	
If the Interest Rate Type is...	Use an amortizing Debt Service Amount based on the greater of the Gross Note Rate or the...
Fixed Rate	applicable Underwriting Interest Rate Floor per Form 4660.
Adjustable Rate	Variable Underwriting Rate per the applicable Part III Chapters.

1402.03C Calculating the DSCR and LTV

☒ Requirements

To determine the Supplemental Mortgage Loan amount, you must apply the Form 4660 DSCR and LTV requirements as follows:



Supplemental Mortgage Loan	
DSCR	The combined debt service of <ul style="list-style-type: none">• all Pre-Existing Mortgage Loans, plus• the Supplemental Mortgage Loan.
LTV	The combined <ul style="list-style-type: none">• aggregate UPB of all Pre-Existing Mortgage Loans, plus• the principal amount of the Supplemental Mortgage Loan.

1402.03D New Loan Test

☒ Requirements

If For a Tier 2 Supplemental Mortgage Loan, if the Senior Mortgage Loan Maturity Date is 5 years or less after the ~~proposed~~ Supplemental Mortgage Loan Origination Date, you must perform a New Loan Test to confirm ~~that~~ the combined UPB of all Pre-Existing Mortgage Loans ~~and~~ plus the Supplemental Mortgage Loan does not exceed the maximum loan amount ~~calculated using the applicable Pricing and Underwriting Tier~~ for a new fixed rate, first Lien, cash-out Mortgage Loan.

You must base the New Loan Test calculations on the current ~~applicable minimum DSCR and maximum LTV per Form 4660 for a Tier 2, cash-out, Supplemental Mortgage Loan~~ using the higher of the:

- ~~current interest rate of the Senior Mortgage Loan; or~~
- ~~current applicable Underwriting Interest Rate Floor for a Tier 2 Mortgage Loan~~
 - ~~with a 10-year loan term, and~~
 - ~~for a property located in a Nationwide market (regardless of the Property's actual location), per Form 4660.~~

Term	New Loan Test Requirement
<u>Underwriting Tier</u>	<u>Tier 2</u>



Term	New Loan Test Requirement
<u>Minimum DSCR</u>	<u>Per Form 4660</u>
<u>Maximum LTV</u>	<u>Per Form 4660</u>
<u>Maturity</u>	<u>10 years</u>
<u>Market Classification</u>	<u>Based on Property's Location</u>
<u>Interest Rate</u>	<u>Higher of:</u> <ul style="list-style-type: none">• <u>an interest rate using the highest Total Credit Fees Range in the current "Indicative Pricing" table in DUS Gateway; or</u>• <u>the Underwriting Interest Rate Floor per Form 4660, if applicable.</u>

1402.04 Tier Dropping

1402.04A Designating

Requirements

If you designated a [Senior Mortgage Loan](#) as eligible for a [Tier Dropping Supplemental Mortgage Loan](#), then you must also designate all [Supplemental Mortgage Loans](#) secured by that [Property](#) as eligible for [Tier Dropping Supplemental Mortgage Loans](#).

Operating Procedures

- For an [MBS Mortgage Loan](#) originated before September 1, 2007, you must have designated it as eligible for a [Tier Dropping Supplemental Mortgage Loan](#) at the time of [Commitment](#) of each [Pre-Existing Mortgage Loan](#).
- For Pools issued on or after August 1, 2001, the designation for [Tier Dropping Supplemental Mortgage Loans](#) eligibility must be disclosed on Annex A to the Prospectus.

1402.04B Eligibility

Requirements



Tier Dropping Eligibility	
If the Pre-Existing Mortgage Loan is...	It is eligible for a Tier Dropping Supplemental Mortgage Loan if...
Cash	<p>the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660</p> <ul style="list-style-type: none">• minimum applicable DSCR for Tier 2 Mortgage Loans, and• maximum applicable LTV for Tier 2 Mortgage Loans.
MBS	<ul style="list-style-type: none">• it was designated as eligible for a Tier Dropping Supplemental Mortgage Loan; and• the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loan meet the Form 4660<ul style="list-style-type: none">- minimum applicable DSCR for Tier 2 Mortgage Loans, and- maximum applicable LTV for Tier 2 Mortgage Loans.

1402.04C Ineligible Mortgage Loans

☒ Requirements

ARM Loans cannot be Tier Dropping Supplemental Mortgage Loans.

1402.05 Streamlined Underwriting

1402.05A Property

☒ Requirements



Streamlined Underwriting	
Zoning	<p>You must perform a non-conforming use analysis and comply with Part II, Chapter 3: Legal Compliance, Section 301: Zoning and Legally Non-Conforming Status if the Property was rezoned after the Mortgage Loan Origination Date, either</p> <ul style="list-style-type: none">• causing it to become a non-conforming use, or• restricting the right to rebuild an existing non-conforming use. <p>A new zoning and non-conforming use analysis is not required if the zoning has not changed.</p>
Appraisal	You must obtain a new Appraisal .
Property Management	If there has been or will be a Property management change, you must comply with Part II, Chapter 1: Attributes and Characteristics, Section 111.01: Property Management .
Property Condition Assessment Report	<p>You must obtain a PCA Report if the Supplemental Mortgage Loan Property inspection reveals any adverse change in property condition or life safety issues.</p> <p>A PCA Report is not required if:</p> <ul style="list-style-type: none">• there has been no adverse change;• the existing PCA Report is less than 3 years old;• all immediate repairs identified in the existing PCA Report have been satisfactorily completed; and• the most recent Property inspection indicates an overall rating of 1 or 2.



Streamlined Underwriting	
Replacement Reserves	<ul style="list-style-type: none">• If the PCA Report indicates a need to increase the existing or fund an initial Replacement Reserve, you must ensure the funding by amending the Replacement Reserve Schedule.• Even if there is no funding or only partial funding for a Pre-Existing Mortgage Loan, you must fully fund the Replacement Reserve if the combined DSCR and LTV for all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan is Tier 2.
Environmental Site Assessment (ESA)	<p>You must obtain a new or updated ESA and comply with Part II, Chapter 5: Property and Liability Insurance, Section 502: Environmental Matters unless all the following are met:</p> <ul style="list-style-type: none">• an ESA was performed for a Pre-Existing Mortgage Loan;• an Environmental Professional performs an environmental database review and identifies no<ul style="list-style-type: none">- potential environmental concerns (as defined in ASTM E1528 - Standard Practice for Limited Environmental Due Diligence: Transaction Screen), or- adverse conditions requiring further due diligence;• the Borrower executes an Environmental Indemnity Agreement (Form 6085);• you confirm that any disclosed Prohibited Activities or Conditions per the Loan Documents are adequately addressed through an O&M Plan being implemented at the Property; and• the Borrower certifies, and you confirm, that all appropriate O&M Plans are in place and being fully and properly implemented.



Streamlined Underwriting	
Property and Liability Insurance	You must base the required amounts and coverages of all property and liability insurance on the combined UPB of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans.
Title Insurance	You must ensure the Borrower obtains a new title insurance policy.

1402.05B Borrower, Guarantor, Key Principals, and Principals

Requirements

You must:

- identify all Key Principals and Principals of the Borrower and Guarantor;
- confirm the original underwriting of the Borrower, Guarantor, and each Key Principal and Principal per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals;
- obtain updates to the:
 - financial statements for all parties relevant to the transaction;
 - Multifamily Underwriting Certificates (Form 6460) for the Borrower, Guarantor, and each Key Principal;
 - organizational documents of the Borrower, Guarantor, and each Key Principal; and
 - good standing certificate from the jurisdiction where an entity Borrower and Guarantor are organized;
- confirm that the organizational structure of the Borrower, Guarantor, and each Key Principal complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals; and
- confirm that no unauthorized change has been made to the organizational structure or organizational documents of the Borrower or the Guarantor.

Operating Procedures



You must contact Fannie Mae per [Part V, Chapter 7: Non-Performing Mortgage Loans, Section 704: Notice of Default; Reservation of Rights](#) if there has been:

- an unauthorized [Transfer/Assumption](#); or
- any change in the organizational structure of the [Borrower](#), [Guarantor](#), or any [Key Principal](#) or [Principal](#).