



Fannie Mae®

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# Multifamily Selling and Servicing Guide

Effective as of October 18, 2021

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## TABLE OF CONTENTS

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Summary of Changes .....	4
Part V Chapter 1 Servicing .....	15
Section 101 Generally .....	15
101.01 Relationship .....	15
101.02 Standard .....	15
101.03 Servicing File .....	15
101.04 Loan Document Compliance .....	16
Section 102 Uniform Commercial Code (UCC) Financing Statements .....	16
102.01 Filing Documents .....	16
102.02 UCC Continuations, Amendments, and Terminations .....	17
Section 103 Letters of Credit .....	18
103.01 Servicing File .....	18
103.02 Certification .....	18
103.03 Monitoring Expiration Dates .....	18
103.04 Replacement Letter of Credit .....	19
103.05 Verifying Issuer Ratings .....	19
103.05 A Monitoring .....	19
103.05 B Rating Noncompliance .....	19
103.06 Managing Draws and Releases .....	20
103.06 A Letter of Credit Draws .....	20
103.06 B Releasing/Reducing Letters of Credit or Other Collateral .....	20
Section 104 Bond Transactions and Credit Enhancement Mortgage Loans .....	21
104.01 Borrower Obligations .....	21
104.01 A Payments .....	21
104.01 B Principal Reserve Fund .....	22
104.02 Cash Collateral Agreements .....	23
104.03 UCC Filings .....	23
104.04 Remarketing Agent Changes .....	23
Part V Chapter 6 Watchlist Management .....	32
Section 601 Servicer Watchlist .....	32
601.01 Submission .....	32
601.02 Actions .....	33
Section 602 Fannie Mae's Watchlist .....	34
Section 603 Action Plans .....	34
603.01 Primary Risk Mortgage Loans .....	34
603.02 Secondary Risk Mortgage Loans .....	35
603.03 Defaulted Mortgage Loans .....	35
Section 604 Servicer Fees .....	36
Section 605 Fannie Mae Contractors .....	36
Part V Chapter 8 In Place Loans .....	45
Section 801 Eligibility .....	45
Section 802 Representations .....	46





## Summary of Changes

HIGHLIGHTS
<p><b>Effective October 18, 2021</b>, Fannie Mae continues its CLASS initiative by publishing 3 newly rewritten Part V Guide chapters:</p> <ul style="list-style-type: none"><li>• Part V, Chapter 1: Servicing;</li><li>• Part V, Chapter 6: Watchlist Management; and</li><li>• Part V, Chapter 8: In Place Loans.</li></ul>



### Primary Changes

In 2019 and 2020 the rewritten Parts I – IV of the Guide became effective and available in DUS Navigate™. With your support and partnership, we are continuing our CLASS initiative to simplify and rewrite the Guide, and are pleased to publish 3 rewritten Part V chapters.

### Questions

Please contact the DUS Navigate team at [dus\\_navigate@fanniemae.com](mailto:dus_navigate@fanniemae.com) with any questions.



## Chapter 1

# General Servicing Requirements, and Servicing for Loan Documents and Specialty Products

### Section 101

#### Servicing – General

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The **Servicer** must service **Mortgage Loans**:

- with regard to **Securitized Mortgage Loans**, on behalf of Fannie Mae, in Fannie Mae's corporate capacity and in Fannie Mae's capacity as Trustee, for the benefit of and in the best interest of the **Investor** in the **Security**;
- with regard to **Credit Enhancement Mortgage Loans**, on behalf of Fannie Mae as the issuer of the **Credit Enhancement Instrument**; and
- with regard to **Cash Mortgage Loans**, on behalf of Fannie Mae, in Fannie Mae's corporate capacity.

The **Servicer's** servicing obligations continue until terminated by the terms of the **Guide**, and the **Loan Documents**.

The **Servicer** must always act diligently to protect Fannie Mae's investment interests in the **Mortgage Loans**. The **Servicer** is expected to exercise prudent business judgment in all of its servicing and asset management activities, including those relating to matters for which Fannie Mae has not established specific requirements or standards. While this Part V delegates significant decision-making authority and responsibility to the **Servicer**, consultation with the **Servicer's Fannie Mae Representative** is encouraged whenever matters arise that could materially affect Fannie Mae's investment interests. All requirements of this Part V are also applicable to any Sub-Servicer of the **Mortgage Loan**.

### Section 102

#### Servicing Standard

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The **Servicer** must service the **Mortgage Loan** in accordance with and, in the event of any conflict, in the following order of priority:

- the applicable **Loan Documents**;
- the **Lender Contract**;
- the **Guide**; and
- commercially prudent servicing practices and sound



business judgment as would be exercised by prudent institutional mortgage lenders and servicers servicing mortgage loans comparable to the Mortgage Loans in the jurisdictions where the Property is located.

## Section 103

### Servicing Files

The Servicer must maintain a separate Servicing File for each Mortgage Loan. The Servicing File may be maintained in paper or electronic imaged form so long as all requirements for record retention provided in the Program Rules are met. The Servicing File for each Mortgage Loan must include copies of any document relevant to the Mortgage Loan as provided in Servicing File Content Requirements (Form 4800).

The Servicer must carefully document the actions it takes with respect to each Mortgage Loan in the Servicing File. The Servicing Files will be examined as part of Fannie Mae's periodic assessment of the Servicer.

## Section 104

### Loan Document Servicing

For each Mortgage Loan that it services, the Servicer is responsible for monitoring the Borrower's compliance with the terms and conditions of all Loan Documents, and for taking such actions as are appropriate to facilitate the Borrower's compliance or address any instance of noncompliance.

In the event of any conflict among the requirements of the Lender Contract, the Guide, or the provisions of any Loan Document, the provisions of the Loan Document shall control.

## Section 105

### Uniform Commercial Code Financing Statements

#### 105.01 Documentation and Filing Requirements

The Servicer must:

- retain in the Servicing File a file-stamped copy of all applicable UCC financing statements, continuations, renewals, and assignments ( UCC-1s and UCC-3s) filed in connection with the Personal Property securing the Mortgage Loan;



- preserve, on a continuous basis, Fannie Mae's first Lien security interest in the Personal Property by ensuring that all necessary UCC financing statement renewal or continuation statements are filed on a timely basis (i.e., before the date on which any outstanding filing lapses, or by any earlier deadline for filing that may be applicable in the particular jurisdiction); and
- maintain an effective "tickler" system for tracking the UCC financing statement renewal or continuation filing deadlines applicable to all of the Mortgage Loans it services for Fannie Mae.

The Servicer is liable for any losses incurred by Fannie Mae due to the Servicer's failure to effect a timely renewal or continuation of a UCC financing statement.

#### **105.02** UCC Renewals or Continuations and Amendments and Terminations

The Servicer is hereby authorized and required to file in all appropriate jurisdictions all required UCC renewal or continuation financing statements on Fannie Mae's behalf as servicer of the Mortgage Loan. The Servicer is also authorized and required to file amendments to the UCC financing statements required to correct any scrivener's error. Unless specific authority is granted by Fannie Mae to serve as Fannie Mae's attorney-in-fact pursuant to a Limited Power of Attorney (as described in Part V, Chapter 4: Asset Management: Loan Document Administration, Section 403: Execution of Documents by Servicer—Limited Power of Attorney), the Servicer is not authorized to sign or file any amendment to a UCC financing statement (other than an amendment to correct a scrivener's error) or termination of any UCC financing statement.

### **Section 106** Administrative Duties Relating to Letters of Credit

#### **106.01** Retention in Servicing File

The Servicer must retain a copy of the executed Letter of Credit, and the associated Achievement Agreement or other Collateral Agreement in its Servicing File. Fannie Mae will hold the original Letter of Credit and any amendments thereto.

#### **106.02** Submission of Certification

The Servicer must submit a Letter of Credit Authorization and



Certification Form (Form 4664.B) with any new or replacement Letter of Credit, and must otherwise comply with the provisions of Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit.

#### **106.03** Forwarding New, Replacement or Amended Letters of Credit

Any new, replacement, or amended Letter of Credit sent to the Servicer rather than to Fannie Mae must be forwarded to Fannie Mae immediately.

#### **106.04** Verification of Issuer Rating

While the Letter of Credit is outstanding, the Servicer must monitor the rating of the Letter of Credit issuer as required in Part I, Chapter 2: Mortgage Loan, Section 204.03: Verifying Issuer Ratings, and notify Multifamily Business Operations whenever the issuer ceases to meet the required rating, regardless of whether the Achievement Agreement or other Collateral Agreement provides issuer rating acceptability or gives Fannie Mae the right to take any action in the event of a rating drop.

#### **106.05** Documenting Rating in Servicing File

Each time the issuer's rating is verified, the Servicer must document the current rating in its Servicing File.

#### **106.06** When Issuer Rating Fails to Meet Standard

If the Letter of Credit issuer fails to meet the rating standards prescribed by the Achievement Agreement, other Collateral Agreement, or the Guide (if not specified in the Achievement Agreement or other Collateral Agreement), the Servicer must:

- immediately notify Multifamily Business Operations; and
- send written notification to the Borrower to furnish a replacement or confirming Letter of Credit from an acceptably rated institution by the replacement deadline specified in the applicable Achievement Agreement or Collateral Agreement, or if not specified, by the earlier of 30 days after the date of such notice, or 5 Business Days prior to the Letter of Credit's expiration date.

#### **106.07** Monitoring Expiration Dates





The **Servicer** must effectively monitor the expiration date of any **Letter of Credit** to ensure that Fannie Mae receives an acceptable renewal or replacement **Letter of Credit** by the deadline specified in the **Achievement Agreement** or other **Collateral Agreement**, or if not specified, by at least 5 **Business Days** prior to the **Letter of Credit**'s expiration date. Failure to provide a substitute or renewal **Letter of Credit** will result in Fannie Mae's presentment of a sight draft against the expiring **Letter of Credit**.

#### **106.08** Draws on the Letter of Credit

The **Servicer** must promptly notify **Multifamily Asset Management** and **Multifamily Business Operations** whenever a draw on a **Letter of Credit** may be warranted. If Fannie Mae determines that a draw should be made, Fannie Mae will present a sight draft, signed by Fannie Mae (as beneficiary) to the issuer and arrange to have the cash proceeds wired to a designated Fannie Mae account.

#### **106.09** Release/Reduction of Letter of Credit or Other Collateral

Unless requested in connection with the **Mortgage Loan** being repaid in full, the **Servicer** is responsible for:

- assessing any **Borrower** request for a full release or partial reduction of the **Letter of Credit** or other collateral held by Fannie Mae or the **Servicer** in accordance with the terms and conditions of the applicable **Achievement Agreement** or other **Collateral Agreement**;
- sending a recommended course of action to **Multifamily Asset Management**; and
- providing written notification to the **Borrower** of the approval or denial of each request.

#### **106.10** Replacement Letters of Credit

Any replacement **Letter of Credit** must have an expiration date that is at least 30 days past the expiration of the applicable **Achievement Agreement** or other **Collateral Agreement**.

### **Section 107** Bond Transactions and Credit Enhancement Mortgage Loans

#### **107.01** Borrower Obligations



## **107.01A** Compliance with Reimbursement Agreement or Loan Agreement, and Other Loan Documents

The **Servicer** must monitor **Borrower's** compliance with any Reimbursement Agreement, and the other **Loan Documents** and **Bond Documents**. For example, the **Servicer** must monitor financial information required to be provided by the **Borrower** or any other **Person** under the Reimbursement Agreement.

## **107.01B** Payment of Fees

### **1. Collection from Borrower**

In addition to invoicing and collecting from the **Borrower** the **Bond Scheduled Payments** (or **P&I** payment on any **Credit Enhancement Mortgage Loan**), and other amounts owing, the **Servicer** is responsible for collecting all payments due from the **Borrower** in accordance with the terms and conditions of the Reimbursement Agreement, Loan Agreement, and other **Loan Documents**, including the following:

- reimbursement of all amounts disbursed by Fannie Mae under either:
  - its **Credit Enhancement Instrument** or its **MBS** issued as **Credit Enhancement**; and
  - the **Loan Documents** evidencing or securing the **Credit Enhancement Mortgage Loan** or any other **Collateral Agreement** for the **Bonds**;
- the **Facility Fee** and the **Activity Fee**;
- all amounts required to be paid by **Borrower** to fully replenish the **PRF** following any use of funds in the **PRF** by the **Bond Trustee**;
- any **Prepayment Premium** or other **Termination Fee** payable by the **Borrower** with the prepayment of a **Credit Enhancement Mortgage Loan**; and
- any other fees, expenses, or reimbursements required to be made by the **Borrower** under the Reimbursement Agreement.

### **2. Calculate Amounts Owing**

The **Servicer** must immediately invoice the **Borrower** upon



receipt from Fannie Mae of the information the **Servicer** requires to calculate amounts owing from the **Borrower** under the Reimbursement Agreement or any other Loan Agreement evidencing or securing the **Credit Enhancement Mortgage Loan**. Upon receipt from the **Borrower**, the **Servicer** must remit the funds to the appropriate parties in accordance with the timing and terms of the Reimbursement Agreement or the applicable **Loan Document**.

### 3. Notification of Fannie Mae Advanced Funds

Fannie Mae will notify the **Servicer** on or after each date on which Fannie Mae disburses funds, of the amount disbursed, under any:

- **Credit Enhancement Instrument**;
- **Loan Document** evidencing or securing a **Credit Enhancement Mortgage Loan** or any other **Collateral Agreement for Bonds**; or
- **Credit Enhancement** for any **Interest Rate Hedge**, including any **Swap Collateral Agreement**, **Interest Rate Swap Credit Enhancement Instrument**, or **Interest Rate Swap Credit Support Annex**.

### 4. Collection from Borrower of Fannie Mae Advanced Funds

The **Servicer** must collect from the **Borrower** and immediately remit to Fannie Mae funds equal to:

- the amount provided by Fannie Mae in connection with any **Credit Enhancement Mortgage Loan** or any **Credit Enhancement** for an **Interest Rate Hedge**; and/or
- the **Activity Fee** with respect to the related **Credit Enhancement Mortgage Loan**, to the extent that the **Borrower** does not fully reimburse Fannie Mae by 2:00 p.m. Eastern Time, on the date on which Fannie Mae provided the funds in connection with such **Credit Enhancement Mortgage Loan** or such **Credit Enhancement** for an **Interest Rate Hedge**.

## 107.01C

### Other Fees

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



#### Fannie Mae:

- any other fees, expenses, or additional costs due from the Borrower to Fannie Mae under each Credit Enhancement Mortgage Loan, each Security Instrument, the Reimbursement Agreement, or any other Loan Document; and
- any other amounts due pursuant to written communication from Fannie Mae or the Bond Trustee.

#### 107.01D Timing of Payments

When the Servicer receives payment from the Borrower with respect to the Reimbursement Agreement, Loan Agreement, or any Loan Document, the Servicer must remit such payment as directed by Fannie Mae.

If payment is not provided to Fannie Mae or the Bond Trustee until the next Business Day, the Servicer must invest the funds overnight and remit all investment earnings to Fannie Mae or the Bond Trustee with the payment; provided, however, that the Servicer is only required to use its best efforts to so invest any payments received after 4:00 p.m. Eastern Time.

#### 107.01E Principal Reserve Fund

For each Credit Enhancement Mortgage Loan, the Servicer must monitor the PRF amount and the Interest Reserve Requirement, if any, under the Bond Indenture.

Notwithstanding any provision in the Reimbursement Agreement, Loan Agreement, or any other Loan Document, no withdrawal from a PRF may be made without the prior written consent of Fannie Mae.

If any withdrawal is made from the PRF, including any reimbursement to Fannie Mae for amounts paid by Fannie Mae under the Credit Enhancement Instrument or Credit Enhancement Mortgage Loan Documents, the Servicer must collect the amount of such withdrawal from the Borrower.

#### 107.02 Security Instrument; Collateral Agreements; Uniform Commercial Code Filings

##### 107.02A General



The **Servicer** must monitor the **Borrower's** continued compliance with the requirements of the **Security Instrument** and any other **Collateral Agreement**.

#### **107.02B** Cash Collateral Agreement

Upon request, the **Servicer** must notify Fannie Mae regarding the status of the investment of the cash collateral posted under any **Collateral Agreement**. The **Servicer** must monitor and ensure that any control agreement required to perfect Fannie Mae's security interest in such pledged collateral remains in full force and effect.

#### **107.02C** Investment of Collateral

The **Servicer** must perform reasonable servicing functions, as directed by Fannie Mae, with respect to any **Security Agreement**. The **Servicer** acknowledges and agrees, however, that the **Servicer** has no discretion to direct investment, application, or release of the collateral under any **Security Agreement** except upon express written authorization and direction from Fannie Mae.

#### **107.02D** Monitoring Uniform Commercial Code Filings

The **Servicer** must monitor and ensure that all **UCC** filings for Fannie Mae in connection with **Loan Documents** or related **Bond Documents** are continued, prior to their expiration, in accordance with the requirements of the jurisdiction in which they are filed.

The **Servicer** must provide each **Bond Trustee** with written notice of the need to file continuation statements for all **UCC** filings for the **Bond Trustee** for the benefit of Fannie Mae no later than 90 days prior to the expiration of the **UCC** filings, and must actively, diligently, and persistently seek to obtain confirmation from each **Bond Trustee** that the requisite continuation statements have been filed prior to the expiration of the **UCC** filings.

#### **107.03** Remarketing Agent Changes

Fannie Mae must approve any change in the **Remarketing Agent** if Fannie Mae is providing **Bond Liquidity** support for an existing variable rate **Bond** or for index or reset rate **Bonds** subject to remarketing on certain scheduled mandatory tender and remarketing dates.

To request approval of a new **Remarketing Agent**, the **Lender**



must submit to Lender Risk Management and Multifamily Asset Management the following information regarding the proposed Remarketing Agent:

- annual financial statements for the most recent fiscal year;
- description of the operation, knowledge, and experience in public finance and tax-exempt markets, including experience in remarketing variable-rate demand Bonds;
- current weekly variable-rate demand Bond remarketing book, including dollar amount; and
- description of any failed remarketings.

The proposed Remarketing Agent should:

- currently remarket at least \$250 million of weekly variable-rate demand Bonds;
- have experience continuously remarketing weekly variable-rate demand Bonds for the past 3 years;
- have a minimum net worth of \$5 million; and
- have a minimum broker line of credit sufficient for warehousing \$100 million of rated Bonds at any time.



## **Chapter 1**

## **Servicing**

### **Section 101**

### **Generally**

#### **101.01 Relationship**

##### **✓ Requirements**

You must service all [Portfolio Mortgage Loans](#) on Fannie Mae's behalf per the [Guide](#).

#### **101.02 Standard**

##### **✓ Requirements**

You must:

- [always protect Fannie Mae's interest in the Mortgage Loan;](#)
- [collect all amounts due from the Borrower for Fannie Mae and any MBS Investor;](#)
- [service each Mortgage Loan per these documents until your obligations end in the following order of priority:](#)
  1. [Loan Documents;](#)
  2. [Disclosure Documents;](#)
  3. [Lender Contract;](#)
  4. [Guide; and](#)
  5. [commercially sound servicing practices and business judgment exercised by prudent institutional servicers for comparable mortgage loans in the Property's jurisdiction; and](#)
- [hold any retained subservicer to this standard.](#)

#### **101.03 Servicing File**

##### **✓ Requirements**

You must:



- maintain a separate Servicing File for each Mortgage Loan; and
- permit Fannie Mae to periodically examine your Servicing Files.

#### Operating Procedures

The Servicing File must:

1. Per the Multifamily Servicing File Content Requirements (Form 4800), include a copy of all

- Mortgage Loan origination documents,
- underwriting documents,
- Loan Documents, and
- servicing documents.

2. Fully document your actions for each Mortgage Loan.

3. Be in paper or electronic imaged form.

4. Comply with all record retention requirements per the Program Rules.

### **101.04** Loan Document Compliance

#### Requirements

For each Mortgage Loan, you must:

- monitor the Borrower's compliance with all Loan Document terms and conditions; and
- appropriately address noncompliance.

## **Section 102** Uniform Commercial Code (UCC) Financing Statements

### **102.01** Filing Documents

#### Requirements

You must maintain Fannie Mae's first Lien security interest in the Personal Property by filing all necessary UCC financing statements and





continuations by the earlier of:

- the date any outstanding filing lapses; or
- any applicable jurisdiction filing deadline.

#### ➔ Guidance

For all Mortgage Loans, you should effectively monitor

- UCC financing statements, and
- continuation filing deadlines.

#### ✕ Operating Procedures

Each Mortgage Loan Servicing File must include a file-stamped copy of the UCC financing statements filed for the Personal Property, including

- initial filings,
- continuations,
- assignments, and
- other amendments.

## **102.02** UCC Continuations, Amendments, and Terminations

#### ✕ Operating Procedures

You are authorized and required to file:

1. All UCC continuation statements in all appropriate jurisdictions.
2. Any UCC financing statement amendments to correct any scrivener's error.

Unless Fannie Mae granted you a Limited Power of Attorney, you are not authorized to

- sign or file any UCC financing statement amendment other than for a scrivener's error, or
- terminate any UCC financing statement.



## → [Guidance](#)

See [Part V, Chapter 4: Asset Management: Loan Document Administration, Section 403: Execution of Documents by Servicer – Limited Power of Attorney](#) for more information.

## **Section 103**

## **Letters of Credit**

### **103.01** [Servicing File](#)

#### [Requirements](#)

[You must immediately deliver to Fannie Mae:](#)

- [the original Letter of Credit; and](#)
- [any new, replacement, or amended Letter of Credit delivered to you.](#)

#### [Operating Procedures](#)

[In your Servicing File, you must keep a copy of any](#)

- [Letter of Credit, and](#)
- [the associated Achievement Agreement or other Collateral Agreement.](#)

### **103.02** [Certification](#)

#### [Operating Procedure](#)

[With any new or replacement Letter of Credit, you must](#)

- [submit a Borrower Letter of Credit Certification \(Form 4664.B\), and](#)
- [confirm the Letter of Credit complies with Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit.](#)

### **103.03** [Monitoring Expiration Dates](#)

#### [Operating Procedures](#)

[You must:](#)



- effectively monitor each Letter of Credit's expiration date; and
- ensure Fannie Mae receives an acceptable renewal or replacement Letter of Credit
  - by the deadline per the Achievement Agreement or other Collateral Agreement, or
  - if no deadline is specified, at least 5 Business Days before the Letter of Credit expires.

If you do not provide a renewal or replacement Letter of Credit, Fannie Mae will present a sight draft against the expiring Letter of Credit.

#### **103.04** Replacement Letter of Credit

##### Operating Procedures

You must ensure any replacement Letter of Credit has an expiration date at least 30 days after the applicable Achievement Agreement or other Collateral Agreement expiration date.

#### **103.05** Verifying Issuer Ratings

##### **103.05A** Monitoring

##### Operating Procedures

While each Letter of Credit is outstanding, you must:

- comply with Part I, Chapter 2: Mortgage Loan, Section 204.03: Verifying Issuer Ratings; and
- document each rating verification in your Servicing File.

##### **103.05B** Rating Noncompliance

##### Operating Procedures



If the rating of the financial institution issuing or confirming the Letter of Credit does not comply with..	You must...
<a href="#">Part I, Chapter 2: Mortgage Loan, Section 204.02: Issuers and Ratings</a>	<p>Promptly notify Multifamily Business Operations even if the <a href="#">Achievement Agreement</a> or other <a href="#">Collateral Agreement</a></p> <ul style="list-style-type: none"> <li>• <a href="#">provides different acceptable issuer rating criteria, or</a></li> <li>• <a href="#">does not authorize Fannie Mae to act if the rating falls.</a></li> </ul>
<p><a href="#">Rating criterial in the Achievement Agreement or other Collateral Agreement</a></p>	<ul style="list-style-type: none"> <li>• <a href="#">Promptly notify Multifamily Business Operations.</a></li> <li>• <a href="#">Require the Borrower to provide a replacement or confirming Letter of Credit from an acceptably rated institution by the:</a> <ul style="list-style-type: none"> <li>- <a href="#">replacement deadline per the Achievement Agreement or Collateral Agreement; or</a></li> <li>- <a href="#">earlier of</a> <ul style="list-style-type: none"> <li>▪ <a href="#">30 days after notifying the Borrower, or</a></li> <li>▪ <a href="#">5 Business Days before the Letter of Credit expires.</a></li> </ul> </li> </ul> </li> </ul>

## **103.06** [Managing Draws and Releases](#)

### **103.06A** [Letter of Credit Draws](#)

#### ☒ [Requirements](#)

[You must promptly notify Multifamily Asset Management and Multifamily Business Operations if a Letter of Credit draw is appropriate.](#)

### **103.06B** [Releasing/Reducing Letters of Credit or Other Collateral](#)



### Operating Procedures

Unless a Mortgage Loan is being fully repaid, you must:

- assess each Borrower request to fully release or partially reduce a Letter of Credit or other collateral;
- submit your recommendation to Multifamily Asset Management; and
- notify the Borrower when each request is approved or denied.

## **Section 104**

## **Bond Transactions and Credit Enhancement Mortgage Loans**

### **104.01** Borrower Obligations

#### **104.01A** Payments

### Operating Procedures

Collect all of the following from the Borrower:

- reimbursement of all amounts Fannie Mae paid or is due per any:
  - Credit Enhancement Instrument or MBS for Bonds;
  - Loan Documents or Reimbursement Agreement;
  - Bond Collateral Agreement; and
  - Interest Rate Cap Agreement or other interest rate hedge;
- any Facility Fee and/or Activity Fee for an unreimbursed Liquidity Advance per the Reimbursement Agreement;
- all amounts required to replenish the PRF;
- any Prepayment Premium or other Termination Fee;
- any other fees, expenses, or additional costs due per any
  - Credit Enhancement Instrument or MBS for Bonds,
  - Security Instrument,
  - Reimbursement Agreement, or
  - other Loan Document; and
- any other amounts due Fannie Mae or the Bond Trustee.



Steps	Activity...
<u>Calculate the Amount Due</u>	<p>After receiving the information to calculate the amount due, you must</p> <ul style="list-style-type: none"> <li>• immediately invoice the <u>Borrower</u>, and</li> <li>• remit the funds to the appropriate parties per the Reimbursement Agreement or <u>Loan Documents</u>.</li> </ul>
<u>Advance Funds Notification</u>	<p>Fannie Mae will notify you of the amount disbursed on or after each disbursement date for any:</p> <ul style="list-style-type: none"> <li>• <u>Credit Enhancement Instrument or MBS for Bonds</u>;</li> <li>• <u>Loan Document</u>; or</li> <li>• <u>other Bond Collateral Agreement</u>.</li> </ul>
<u>Payment Timing</u>	<p>You must remit all <u>Borrower</u> payments per the <u>Loan Documents</u> or Fannie Mae's instructions.</p> <p>If you do not pay Fannie Mae or the <u>Bond Trustee</u> until the next <u>Business Day</u>, you must</p> <ul style="list-style-type: none"> <li>• invest the funds overnight, and</li> <li>• remit all investment earnings to Fannie Mae or the <u>Bond Trustee</u> with the payment. For <u>Borrower</u> payments received after 4:00 p.m. Eastern Time, you must use your best efforts to invest the funds.</li> </ul>

## **104.01B**      Principal Reserve Fund

### Requirements

You must ensure no PRF withdrawal occurs without Fannie Mae's approval.

### Operating Procedures

For each Credit Enhancement Mortgage Loan, you must:



- Review the Bond Trustee's reported PRF balance.
- Collect from the Borrower any amount withdrawn from the PRF, including withdrawals reimbursing Fannie Mae for amounts it paid per the
  - Credit Enhancement Instrument or MBS for Bonds, or
  - Loan Documents.

#### **104.02** Cash Collateral Agreements

##### ☒ Requirements

You must:

- ensure any control agreement perfecting Fannie Mae's security interest in pledged collateral remains in full force and effect; and
- not invest, apply, or release any collateral under a Cash Collateral or other Security Agreement.

#### **104.03** UCC Filings

##### Operating Procedures

For UCC filings per Loan Documents or Bond documents, you must:

- instruct each Bond Trustee to file UCC continuation statements at least 90 days before the filing expires; and
- confirm the filing occurred before expiration.

#### **104.04** Remarketing Agent Changes

##### ☒ Requirements

For Bond transactions that remarket on scheduled mandatory tender and remarketing dates where Fannie Mae provides Bond liquidity support, you must ensure any new Remarketing Agent complies with Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1903.02: Remarketing Agent.



## Chapter 6 Watchlist Management

### Section 601 General

This Chapter sets forth the minimum standards for identifying and servicing **Mortgage Loans** that exhibit signs of heightened credit risk. Certain circumstances may require the **Servicer** to perform additional servicing duties. Although Fannie Mae requires **Servicers** to service all **Mortgage Loans** to a high standard, those exhibiting heightened credit risk must be serviced to an enhanced standard commensurate with the increased risk. Fannie Mae may exercise its remedies under the **Lender Contract** if the **Servicer** fails to comply with the standards described in this Chapter. All of the requirements of this Chapter apply to **Primary Risk Mortgage Loans** and **Secondary Risk Mortgage Loans** unless otherwise indicated.

### Section 602 Risk Rate and Maintain Servicer Watchlist

The **Servicer** must maintain a **Servicer Watchlist** by risk rating its Fannie Mae **Mortgage Loan** portfolio in order to identify **Mortgage Loans** exhibiting heightened credit risk consistent with the instructions and classification provided in this Chapter.

### Section 603 Servicer Watchlist Classifications and Requirements

To promote consistency in identifying **Mortgage Loans** exhibiting heightened credit risk, Fannie Mae has defined rating classifications for the **Servicer** to determine which **Mortgage Loans** must be identified on the **Servicer Watchlist** described in this Chapter. These classifications are similar to regulatory definitions applicable to U.S. depository institutions with respect to assets exhibiting heightened credit risk.

#### 603.01 Rating Classifications

##### 603.01A Pass Asset

A Pass Asset exhibits no evidence of an emerging weakness that could affect its future performance. A Pass Asset is performing as agreed and demonstrates none of the weaknesses described in the following definitions for a Pass/Watch Asset, Special Mention Asset, Substandard Asset, or Doubtful Asset.

##### 603.01B Pass/Watch Asset





A Pass/Watch Asset demonstrates a current weakness, condition, or characteristic that is not yet severe enough to warrant a Substandard Asset or Doubtful Asset rating.

Characteristics of a Pass/Watch Asset rating include, but are not limited to, physical condition, cash flow and/or other measures of performance that are weaker than expected or as underwritten, yet operating performance has not diminished such that the Asset should be adversely classified.

### 603.01C Special Mention Asset

A Special Mention Asset is a Mortgage Loan that would otherwise be rated Pass, but has potential weaknesses requiring close attention. Ordinarily assets rated Special Mention have deficiencies in their administration which corrective management action might remedy. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the Mortgage Loan, or adversely affect its future performance. A Special Mention Asset rating is not a compromise between a Pass Asset and Substandard Asset rating, and should not be used to avoid exercising such judgment. Instead, it should be used to guide management on corrective measures that might be taken to strengthen an asset to avoid any potential deterioration in the asset's quality.

Characteristics of a Special Mention Asset rating include, but are not limited to, matters not immediately impacting Property cash flow or asset value that, if left uncorrected, may warrant an adverse risk classification in the future, including:

- material noncompliance with any Loan Document (including, but not limited to, any Completion/Repair Agreement, Replacement Reserve Schedule, or Collateral Agreement), or other similar Borrower obligation;
- ownership or management problems;
- pending litigation, citations, or code/regulatory violations; or
- any other material structural weakness, or any other significant deviation from prudent lending or ownership practices.

### 603.01D Substandard Asset

A Substandard Asset is inadequately protected by the current



net worth and paying capacity of the **Borrower** or the related **Property**, including any additional collateral pledged. A **Mortgage Loan** classified as a Substandard Asset must have a well-defined weakness or weaknesses that may jeopardize the timely repayment of the **Mortgage Loan**, and there must be a distinct possibility that the **Borrower** will default under the terms of the **Mortgage Loan** if the deficiencies are not corrected. While Substandard Assets generally will have a distinct potential for loss, an individual **Mortgage Loan** may still be rated as a Substandard Asset even though that **Mortgage Loan** does not have distinct loss potential should it default.

A Substandard Asset has a higher probability of payment default than a Pass Asset or a Pass/Watch Asset, or it has other well-defined weaknesses and requires more intensive supervision by the **Servicer**.

Characteristics of a Substandard Asset rating include, but are not limited to:

- inadequate debt service coverage; or
- repayment that depends on the sale of the **Property** (or other collateral, if any) securing the **Mortgage Loan**, the assumption of the **Mortgage Loan**, or other credit risk mitigants.

### **603.01E** Doubtful Asset

A Doubtful Asset has all the weaknesses inherent in a Substandard Asset with the added characteristic that the weaknesses make timely collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values.

A Doubtful Asset is either already in default or has a high probability of default, and may have a high probability of total or substantial loss. However, the extent of the loss may not be clear due to specific pending events that may strengthen the asset or mitigate the loss. Pending events can include mergers, acquisitions, liquidations, capital injections, obtaining and perfecting **Liens** on additional collateral, the valuation of collateral, and refinancing. Generally, pending events should be resolved within a relatively short period and the rating will be adjusted based on the new information.

### **603.02** Identification on Servicer Watchlist



A **Mortgage Loan** having characteristics of anything other than a **Pass Asset** or **Pass/Watch Asset** must be identified on the **Servicer Watchlist** by that **Mortgage Loan**'s risk rating classification.

### **603.03** Increased Communication with Fannie Mae

A **Servicer** must increase its communication with the appropriate **Multifamily Loss Mitigation**, **Multifamily Maturity Management**, and **Top Loss Management Representative** concerning any **Mortgage Loan** that meets the criteria of a:

- **Special Mention Asset**;
- **Substandard Asset**; or
- **Doubtful Asset**.

The **Servicer** must contact **Multifamily Loss Mitigation**, or the appropriate **Multifamily Maturity Management** or **Top Loss Management Representative** by telephone or e-mail within 10 **Business Days** after the **Servicer** determines that a **Mortgage Loan** has moved to either a **Substandard Asset** or a **Doubtful Asset** since the last reporting period.

These communications must provide sufficient detail to ensure that Fannie Mae is fully apprised of the nature and severity of the factors leading to the rating characterization assigned by the **Servicer**.

A **Servicer** must act prudently and in a timely manner, as required under its **Lender Contract**, this **Guide**, and the **Loan Documents**, to mitigate the risk of loss or default with respect to **Mortgage Loans** serviced on behalf of Fannie Mae. Such actions may include, but are not limited to:

- increased monitoring of the management and operating results of the **Property** (and other collateral, if any);
- increased monitoring of the physical condition of the **Property** (i.e., increased inspections beyond the stated requirements);
- rescission of waivers or implementation of **Loan Document** requirements that serve to mitigate risk (e.g., the reinstatement of the **Multifamily Loan Agreement** requirement to fund the **Replacement Reserve** that had been previously waived); and
- increased communication with the **Borrower** and any party



that has managerial rights pertaining to the **Borrower** or the **Property** (and other collateral pledged with respect to the **Mortgage Loan**, if any).

## Section 604

### Servicer Watchlist Submission

The **Servicer** must submit to Fannie Mae the **Servicer's Watchlist** for all **Primary Risk Mortgage Loans** and **Secondary Risk Mortgage Loans** rated by the **Servicer** as a Special Mention Asset, Substandard Asset, or Doubtful Asset. For each **Mortgage Loan** on the **Servicer's Watchlist**, the **Servicer** should:

- explain why the Asset is being reported, including the rationale for assigning the specific rating for that asset; and
- provide an update on the current status of the issues.

Additionally, the **Servicer** must answer "Yes" or "No" to the following 2 questions:

1. Is it likely that the **Borrower** will not be able to make Debt Service payments in a timely manner?
2. Is it likely the **Borrower** will not meet the contractual obligations to pay off the principal balance of this **Mortgage Loan** in a timely manner?

The **Servicer's Watchlist** and answers to the above 2 questions must be submitted within 45 days after the end of each calendar quarter, and no later than the due date shown in the **MAMP**. Submissions are made using the CSV upload template located in the Resource Library of the **MAMP**. Fannie Mae will review the submission and determine if further actions are warranted.

## Section 605

### Fannie Mae Watchlist

Fannie Mae maintains a Fannie Mae **Watchlist** that identifies **Mortgage Loans** that exhibit increased credit risk based on Fannie Mae's proprietary **Mortgage Loan** rating system. **Servicers** are able to view all rated **Mortgage Loans** in the "My Portfolio" section of the **MAMP**.

Fannie Mae will initiate communications with the **Servicer** to discuss the severity of risk of each **Mortgage Loan** included in the



Fannie Mae Watchlist.

## Section 606

## Action Plans

### 606.01 Action Plans for Primary Risk Mortgage Loans

The **Servicer** must submit an **Action Plan** for every **Primary Risk Mortgage Loan** identified as a Substandard Asset on the Fannie Mae Watchlist. However, no **Action Plan** is required for **Small Mortgage Loans** that are Substandard Assets unless specifically requested by Fannie Mae. Periodically, Fannie Mae publishes a schedule outlining the dates by which the **Servicer** must (i) determine whether any **Mortgage Loan** qualifies as a Substandard Asset, and (ii) submit the **Action Plan**.

**Action Plans** must contain details sufficient to allow Fannie Mae to understand (i) the areas of concern, (ii) the actions the **Servicer** is taking to resolve the issues, and (iii) the results of the actions. A Watchlist Management User Guide and prescribed formats for **Action Plans** are published on the Lender Dashboard of the Watchlist Management application and in the Resource Library of the **MAMP**. The **Servicer** must update **Action Plans** as needed, but not less frequently than twice per year to reflect:

- material changes;
- causes of issues and additional actions being taken;
- an explanation of how additional actions will reduce the risk factors of the **Mortgage Loan**; and
- the results of any actions taken previously.

A **Servicer** may suspend actions required under an **Action Plan** for a Substandard Asset if it is re-characterized as a Special Mention Asset, a Pass/Watch Asset, or a Pass Asset prior to the date set forth in the Fannie Mae publication by which the **Servicer** must determine whether any **Mortgage Loan** qualifies as a Substandard Asset.

Fannie Mae will evaluate the quality of the **Servicer's Action Plans**, including timeliness of the submission, completeness, appropriateness, and management activity.

### 606.02 Information Requests and Action Plans for Secondary Risk Mortgage Loans



Fannie Mae may request additional information from the Servicer with respect to Secondary Risk Mortgage Loans on the Servicer Watchlist. Such information may include an Action Plan which must be in the format prescribed in the Lender Dashboard — Watchlist Management application. All requested information and Action Plans must be provided by the Servicer within 5 Business Days after request by Fannie Mae.

### 606.03 Defaulted Mortgage Loans on Fannie Mae or Servicer Watchlist

The Servicer's obligations with respect to defaulted Mortgage Loans are addressed in Part V, Chapter 7: Non-Performing Mortgage Loans. The Servicer must continue to execute activities set forth in an Action Plan (and as otherwise communicated to or with Fannie Mae) with respect to a defaulted Mortgage Loan until and unless servicing of the Mortgage Loan is transferred to Special Servicing in accordance with Part V, Chapter 7: Non-Performing Mortgage Loans. Once transferred to Special Servicing, the Servicer may suspend any actions required under an Action Plan.

## Section 607 Property Condition Concerns (Not Limited to Watchlist Loans)

Regardless of whether or not the Mortgage Loan is listed on the Fannie Mae Watchlist or the Servicer Watchlist, the Servicer must take the following actions if (i) a Mortgage Loan has a Property inspection rating of 4 or 5, as shown on the Fannie Mae Assessment Addendum ("Fannie Mae Assmt Addendum") tab of the MBA Standard Inspection Form, or (ii) the property is found to have any life safety concerns or significant deferred maintenance:

- reinstate any suspended requirements for repair or replacement reserves escrows;
- inspect the affected Property or Properties as frequently as necessary to identify, monitor, and work to correct the matter of concern, but in no event less frequently than required by Part V, Chapter 5: Surveillance;
- obtain Fannie Mae's approval prior to ordering a Property Condition Assessment ("PCA"); and
- identify the Mortgage Loan as Substandard (or other appropriate classification) as directed by this Chapter.



## Section 608

### Servicer Fees for Workout, Modification, or Reinstatement

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The **Servicer** may not charge the **Borrower** any fee for its own account, or seek reimbursement from the **Borrower** for any costs or expenses in connection with any workout, modification, or reinstatement of a **Mortgage Loan** on the **Servicer Watchlist** or the Fannie Mae **Watchlist** without the prior approval of Fannie Mae.

## Section 609

### Fannie Mae Contractors

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Periodically, Fannie Mae may contract with others to provide asset management and other services on its behalf with respect to **Mortgage Loans**. All required interactions between a **Servicer** and such Fannie Mae contractors must be conducted as though the **Servicer** is interacting directly with Fannie Mae and, in all instances, consistent with the **Servicer's** obligations under this **Guide**.





## Chapter 6

## Watchlist Management

### Section 601

### Servicer Watchlist

#### 601.01 Submission

##### Requirements

You must:

- Maintain a Servicer Watchlist for your Portfolio Mortgage Loans that
  - reflects your loan rating methodology, and
  - identifies Mortgage Loans with heightened credit risk.
- Submit your Servicer Watchlist for all
  - Primary Risk Mortgage Loans, and
  - Secondary Risk Mortgage Loans.

##### Operating Procedures

Submit your Servicer Watchlist:

- using the CSV upload template located under “Guides and Templates” in the MAMP; and
- within 45 days after each calendar quarter end, but no later than the due date shown in the MAMP.

For each Mortgage Loan, you must:

- Respond “Yes” or “No” to the following 2 questions:
  - Will the Borrower likely not be able to make timely debt service payments?
  - Will the Borrower likely not meet the contractual obligations to timely pay off the Mortgage Loan UPB?
- Explain
  - why it is being reported, and
  - the rationale for its rating.





- Describe the current status of the issues.

## 601.02 Actions

### ☒ Requirements

If a Mortgage Loan has heightened credit risk, you must:

- act to mitigate the risk of loss or default;
- explain the nature and severity of the issues; and
- contact Fannie Mae:

Contact	For...
<u>Watchlist Management</u>	<u>Primary Risk Mortgage Loans with deteriorating Property performance near or below breakeven.</u>
<u>Top Loss</u>	<u>Secondary Risk Mortgage Loans with deteriorating Property performance near or below breakeven.</u>
<u>Special Credits</u>	<u>Property condition concerns per</u> <ul style="list-style-type: none"><li>• <u>Part V, Chapter 5: Surveillance, Section 502.02: Mortgage Loans with Property Condition Concerns (Not Limited to Watchlist Loans), and</u></li><li>• <u>Part V, Chapter 5: Surveillance, Section 502.06F: Analysis of Collateral.</u></li></ul>
<u>Special Asset Management</u>	<u>Monetary default.</u>
<u>Maturity Management</u>	<u>Mortgage Loans maturing within the next 24 months.</u>

### Operating Procedures

Your mitigating actions must include 1 or more of the following:

- monitoring the Property (and any other collateral)
  - management and operations, and



- physical condition (e.g., more frequent inspections);
- implementing or enforcing [Loan Document](#) provisions such as
  - rescinding [Loan Document](#) waivers, or
  - reinstating [Replacement Reserve](#) funding; and
- communicating with all appropriate parties (e.g., [Borrower](#), [Key Principals](#), [Sponsor](#), and [Property manager](#)).

## Section 602

### Fannie Mae's Watchlist

#### → [Guidance](#)

[Fannie Mae's Watchlist](#) identifies [Mortgage Loans](#) with increased credit risk based on Fannie Mae's proprietary

- [rating system, and](#)
- [Watchlist Rating Classifications.](#)

#### ☑ [Requirements](#)

You must regularly monitor Fannie Mae's [Watchlist](#) for your [Mortgage Loans](#) in the [MAMP's "My Portfolio" module](#).

## Section 603

### Action Plans

#### 603.01 [Primary Risk Mortgage Loans](#)

#### ☑ [Requirements](#)

You must submit an [Action Plan](#) for any [Primary Risk Mortgage Loan](#)

- [identified as a Substandard Asset on Fannie Mae's Watchlist, and](#)
- [with an Action Plan work item in the MAMP.](#)

[The Action Plan](#) must explain

- [all areas of concern,](#)
- [the Sponsor's strategy and timing,](#)
- [your actions to resolve the issues, and](#)



- any results.

#### ✦ Operating Procedures

For a Small Mortgage Loan, do not create an Action Plan unless Fannie Mae requires it.

For each Action Plan:

- Review the MAMP module.
- Review the Action Plan Submission Process Guide under "Guides and Templates" in the MAMP.
- Create a new one or update an existing one twice a year to:
  - document material changes and/or updates since the previous Action Plan;
  - identify causes of the issues and additional actions you and the Borrower took;
  - explain how the actions will reduce or mitigate risk and loss; and
  - report the results of previous actions.
- Use the prescribed format to submit it in the MAMP by the "Submission Due Date".

### **603.02** Secondary Risk Mortgage Loans

#### ➔ Guidance

For a Secondary Risk Mortgage Loan on your Servicer Watchlist, Fannie Mae may request additional information, including an Action Plan.

#### ☑ Requirements

You must provide all information and Action Plans within 5 Business Days after Fannie Mae's request.

### **603.03** Defaulted Mortgage Loans

#### ☑ Requirements

For any defaulted Mortgage Loan, until servicing is transferred to a



Special Servicer, you must continue taking all actions

- noted in the Action Plan, or
- otherwise communicated to Fannie Mae.

➔ Guidance

For your defaulted Mortgage Loan obligations, see Part V, Chapter 7: Non-Performing Mortgage Loans.

## **Section 604**

### **Servicer Fees**

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#### ☒ Requirements

For any workout, modification, or reinstatement of a Mortgage Loan on your Servicer Watchlist or Fannie Mae's Watchlist, without Fannie Mae's prior written approval, you must not

- charge the Borrower any fee for your own account, or
- ask the Borrower to reimburse you for any costs or expenses.

## **Section 605**

### **Fannie Mae Contractors**

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#### ☒ Requirements

You must interact with any Fannie Mae contractor engaged to provide asset management or other services as you would with Fannie Mae directly.



## Chapter 8

## In-Place Loans

### Section 801

### General

Fannie Mae may refinance certain **Portfolio Mortgage Loans** that do not meet **Tier 2** underwriting requirements (“**In-Place Loans**”) if:

- the **Property** securing the **Portfolio Mortgage Loan** is in good condition (or requires repairs that can reasonably be made in connection with the refinancing);
- Fannie Mae has had a satisfactory relationship with the **Borrower**; and
- the **Portfolio Mortgage Loan** may not realistically be able to be refinanced outside of Fannie Mae.

If Fannie Mae elects to purchase an **In-Place Loan** refinanced by the **Lender**, special attention will be paid to preserving collateral value and mitigating credit risk by:

- improving the **Property** condition as necessary in an attempt to generate increased cash flow to repay the **Mortgage Loan**;
- maintaining the **Property** in good condition over the term of the **In-Place Loan** by requiring good property management and adequately funded **Replacement Reserves**; and
- adding risk mitigating loan terms.

### Section 802

### In-Place Loan Categories

#### 802.01 Loan Sizing

**Portfolio Mortgage Loans** are divided into 3 categories:

- **Level 1: Portfolio Mortgage Loans** that comply with the **Guide** and meet the minimum **Tier 2** requirements of the **Form 4660**, which are eligible for refinance by the **Lender** and purchase by Fannie Mae;
- **Level 2: In-Place Loans** that refinance **Portfolio Mortgage Loans** but do not meet **Tier 2** requirements, as described in **Part V, Chapter 8: In-Place Loans, Section 802.02: Level 2**



In Place Loans; and

- Level 3: In Place Loans that refinance Portfolio Mortgage Loans but do not meet Tier 2 requirements, as described in Part V, Chapter 8: In Place Loans, Section 802.03: Level 3 In Place Loans.

To calculate the preliminary loan amount of a Level 2 In Place Loan or a Level 3 In Place Loan, the Lender must use an underwriting interest rate equal to the greater of:

- the rate established using current rates and a Tier 2 Plus/Plus Pricing Structure; or
- the applicable underwriting floor.

The preliminary pricing and loan amount should not be shared with the Borrower until approved in writing by Fannie Mae, as Fannie Mae reserves the right to adjust the final approved pricing, loan structure and loan amount based upon the individual characteristics of the In Place Loan and the Property.

## **802.02** Level 2 In Place Loans

Level 2 In Place Loans are Portfolio Mortgage Loans that:

- support an Underwritten DSCR not less than 5 basis points below Tier 2 standards and have an LTV not greater than 5 percentage points above Tier 2 standards;
- are subject to the special pricing and fee limitations set forth in the Pricing Memo; and
- following approval by Fannie Mae, are committed and delivered by the Lender using the standard committing and delivery process specified in Part IV.

## **802.03** Level 3 In Place Loans

Level 3 In Place Loans are Portfolio Mortgage Loans that:

- support an Underwritten DSCR greater than 5 basis points below Tier 2 standards or have a LTV greater than 5 percentage points above Tier 2 Standards;
- may require highly customized loan structures and



features;

- are subject to the special pricing and fee limitations specified in the [Pricing Memo](#);
- are committed and delivered using the standard loan committing and delivery process in Part IV; and
- are subject to a post-purchase monitoring process and may require changes in the [Lender's Restricted Liquidity Requirements](#).

#### **802.04** Level 2 and Level 3 In Place Loans — Generally

If Fannie Mae does not approve an [In Place Loan](#) for purchase, then Fannie Mae in its sole discretion (or, for [Portfolio Mortgage Loans](#) with loss sharing, Fannie Mae and the [Lender](#), in their joint discretion) may agree to enter into a modification and extension of the [Portfolio Mortgage Loan](#) with such additional loan terms as deemed necessary. Any modification or extension of the [Portfolio Mortgage Loan](#), or any new [Level 3 In Place Loan](#) refinancing of a [Portfolio Mortgage Loan](#) with loss sharing will be subject to Triggering Modification Interim Loss Sharing under the [Lender's Loss Sharing Addendum](#).

### **Section 803** Eligibility Requirements

A [Portfolio Mortgage Loan](#) is eligible to be refinanced by the [Lender](#) and the [In Place Loan](#) purchased by Fannie Mae if:

- during the 12 months preceding the refinance, the [Portfolio Mortgage Loan](#) had a timely payment history;
- no unauthorized transfers or changes of the ownership interest in the [Borrower](#) occurred;
- no unauthorized [Liens](#) were placed or filed against the [Property](#);
- during the 12 months preceding the refinance, the [Property](#) operations were stable or indicated a positive trend;
- the [Property](#) meets the underwriting and delivery requirements of the [Guide](#) in all respects (physical condition, unit mix, occupancy requirements, capital reserve, etc.), except as specifically modified by this Chapter; and
- the [Lender](#) is able to demonstrate in the Transaction



Approval Memo that the credit risk of the **Portfolio Mortgage Loan** is reduced by the refinancing and that the refinancing is not merely a delay of an inevitable foreclosure of the **Property** that may increase any losses from the **Portfolio Mortgage Loan** in the process.

## Section 804

## Underwriting Process

### 804.01 Generally

Unless specifically modified in this Chapter, an **In-Place Loan** must meet all of the requirements provided in:

- **Part I**;
- **Part II**;
- the applicable **Part III Chapters** based on the specific products and features of the **Mortgage Loan**; and
- **Form 4660**.

In all cases, the **Lender** must exercise prudent judgment and, unless modified by this Chapter, give the same selling and servicing representations and warranties as are required for newly originated **Mortgage Loans**.

### 804.02 Specific Underwriting Requirements

#### 804.02A Borrower Structure and Experience

No modifications are permitted to the underwriting requirements for the **Borrower's** structure and experience set forth in **Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals**. A new Underwriting Certificate is required from the **Borrower**, any **Guarantor** of the **In-Place Loan**, and any **Key Principal**. In addition, the **Lender** must:

- confirm the original underwriting of the organizational structure, experience and creditworthiness of the **Borrower**, **Guarantor**, **Key Principal**, and **Principal**;
- identify the **Guarantor**, **Key Principals** and **Principals** of the **Borrower** and report the results of the **ACheck** for each **Borrower**, **Guarantor**, **Key Principal**, and **Principal**;





- obtain updated copies of the organizational documents of the Borrower and the Key Principal and confirm that the Borrower's organization complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals;
- confirm that no unauthorized change has been made to the organizational structure and organization documents of the Borrower; and
- obtain a new good standing certificate from the jurisdiction where the Borrower is organized.

#### **804.02B** Property Management

The Borrower is required to provide a management plan and a list of major repairs completed during the preceding 3 years, and the Lender must confirm that the Property is capably managed.

#### **804.02C** Occupancy

The Lender is not required to obtain a copy of the Certificates of Occupancy for the Property. However, the Lender should review the original loan files to identify any issues related to the legal status of the Property's occupancy, and all issues must be clearly outlined in the Lender's Transaction Approval Memo.

#### **804.02D** Property Zoning, Location, and Condition

The Lender must confirm that there has been no change in the zoning affecting the Property. If the Property zoning has not changed since the time the Portfolio Mortgage Loan was initially underwritten, and the Property is a non-conforming use, then a new zoning and non-conforming use analysis is not required for the Property. However, if the Property has been rezoned causing it to become a non-conforming use, or rezoned to further restrict the ability of an existing nonconforming use to rebuild, then the Lender must deliver a non-conforming use analysis. The Lender is not required to obtain an aerial photograph of the Property.

### **Section 805** Appraisals, Inspections and Loan Documentation

#### **805.01** Appraisal

An Appraisal is required for all In-Place Loans.



## **805.02** Physical Condition Assessment

The Lender is required to obtain a PCA for all In Place Loans. It is particularly important that the Borrower makes all needed repairs and improvements, or funds a Completion/Repair Escrow in a sufficient amount so that the Property is either in good condition at refinancing or shortly thereafter. In addition, the Replacement Reserve must be fully funded in an amount that will ensure that the Property is maintained in good condition for the term of the In Place Loan.

## **805.03** Environmental Assessment

If no Phase I Environmental Site Assessment was performed for the original Portfolio Mortgage Loan, then a Phase I Environmental Site Assessment is required for the In Place Loan. If a Phase I Environmental Site Assessment (or, if applicable, a Phase II Environmental Site Assessment) was performed for the Portfolio Mortgage Loan, then it need only be updated by the Environmental Professional re-inspecting the Property to determine if:

- an O&M Plan, if any, has been followed or is now required;
- any other Recognized Environmental Conditions or Business Environmental Risks identified in the original Phase I Environmental Site Assessment, but not the subject of an O&M Plan, have become worse and whether an O&M Plan should be implemented;
- any new Recognized Environmental Condition or Business Environmental Risk is apparent; and
- any nearby land uses subject the Property to any Recognized Environmental Condition or Business Environmental Risk.

## **805.04** Mortgage Loan Documents

All new Loan Documents are required to document the In Place Loan.

## **805.05** Title Policy and Survey Requirements

### **805.05A** Title Policy

A new mortgagee title insurance policy is required for all In Place Loans.



## 805.05B Survey

A new survey of the **Property** is required, unless:

- the new mortgagee title insurance policy for the **In Place Loan** includes all title exceptions, including those that would appear on the most recent survey provided by the **Borrower** to the **Lender**;
- the **Borrower** certifies that there have been no changes to the **Property** since the later of (i) the date of the survey referenced in the original title policy for the **Portfolio Mortgage Loan**, or (ii) the date of most recent survey of the **Property**; and
- the **Lender's** inspection of the **Property** reveals no evidence of new construction on the site or encroachments on the site from adjoining properties.

## 805.06 Subordinate Debt

If the original **Portfolio Mortgage Loan** has any existing **Subordinate Loans** approved by Fannie Mae which will remain after the financing of the **In Place Loan**, the subordinate lender must reaffirm the subordination using the appropriate Subordination Agreement. The combined **DSCR** of the **Senior Mortgage Loan** and all **Subordinate Loans** must be disclosed for pricing during the underwriting of the **In Place Loan**.

## Section 806 Fees and Pricing Premiums

### 806.01 Origination Fees

For maximum **Origination Fees** for all **Level 2 In Place Loans**, and maximum underwriting and processing fees for all **Level 3 In Place Loans**, see the **Pricing Memo**.

### 806.02 Pricing Premiums

No pricing premiums are allowed in connection with the financing of **In Place Loans**.

### 806.03 Loan Modification, Extension and Forbearance Fees

If Fannie Mae agrees (or, for **Portfolio Mortgage Loans** with



loss sharing, Fannie Mae and the Lender jointly agree) to enter into a modification and extension of the Portfolio Mortgage Loan that does not otherwise qualify for refinancing as an In Place Loan in accordance with this Chapter, loan modification fees may be charged in connection with the modification and extension of the Portfolio Mortgage Loan as provided in Part V, Chapter 7: Non-Performing Mortgage Loans, Section 711: Courses of Action.



## Chapter 8

## In Place Loans

### Section 801

### Eligibility

#### ✓ Requirements

A [Portfolio Mortgage Loan](#) is eligible to be refinanced with an [In Place Loan](#) if the [Property](#):

- [operations were stable or trended positively during the 12 months before refinancing; and](#)
- [complies with the \[Guide\]\(#\) other than meeting the \[Tier 2\]\(#\) underwriting requirements.](#)

#### ➔ Guidance

To refinance a [Portfolio Mortgage Loan](#) with an [In Place Loan](#):

Topic	Should..
<a href="#">Portfolio Mortgage Loan</a>	<a href="#">Have a timely payment history during the 12 months before refinance.</a>
<a href="#">Borrower</a>	<ul style="list-style-type: none"><li>• <a href="#">Have a satisfactory relationship with Fannie Mae.</a></li><li>• <a href="#">Not be able to refinance the <a href="#">Portfolio Mortgage Loan</a> on commercially viable terms outside Fannie Mae.</a></li><li>• <a href="#">Not have had any unauthorized transfers or changes of ownership interest.</a></li></ul>
<a href="#">Property</a>	<ul style="list-style-type: none"><li>• <a href="#">Have a<ul style="list-style-type: none"><li>- <a href="#">most recent <a href="#">Property</a> condition rating of 1, 2, or 3 per <a href="#">Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection</a>, or</a></li><li>- <a href="#">special exception from Fannie Mae.</a></li></ul></a></li><li>• <a href="#">Only require repairs that can reasonably be made with refinancing proceeds.</a></li><li>• <a href="#">Have no unauthorized <a href="#">Liens</a>.</a></li></ul>



Topic	Should...
<u>You</u>	<ul style="list-style-type: none"><li>• <u>Have loss sharing on the Portfolio Mortgage Loan.</u></li><li>• <u>Document in the Transaction Approval Memo that refinancing will</u><ul style="list-style-type: none"><li>- <u>reduce the Portfolio Mortgage Loan's credit risk, and</u></li><li>- <u>not merely delay a foreclosure that may increase losses.</u></li></ul></li></ul>

Fannie Mae may also require:

- Property improvements to increase cash flow;
- Property management changes;
- increased Replacement Reserves; or
- other risk-mitigating terms.

## **Section 802**

### **Representations**

#### **☒ Requirements**

Unless modified by this Chapter, you must provide the same selling and servicing representations and warranties required for a newly originated Mortgage Loan.



## GLOSSARY

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### ■ Bond Trustee

Trustee for a Credit Enhancement Instrument.

#### Synonyms

Bond Trustee's

### ■ Letter of Credit

Letter of Credit approved by Fannie Mae per Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit.

#### **Synonyms**

Letters of Credit

Letter of Credit's

LOC

LOCs

### ~~■ Level 2 In Place Loans~~

~~Generally, Portfolio Mortgage Loans with an Underwritten DSCR not less than 5 basis points below Tier 2 standards and an LTV not greater than 5% above Tier 2 standards per Part V, Chapter 8: In Place Loans, Section 802: In Place Loan Categories.~~

#### **Synonyms**

- ~~• Level 2 In Place Loan~~

### ~~■ Level 3 In Place Loans~~

~~Generally, Portfolio Mortgage Loans with an Underwritten DSCR greater than 5 basis points below Tier 2 standards or an LTV greater than 5% above Tier 2 standards per Part V, Chapter 8: In Place Loans, Section 802: In Place Loan Categories.~~

#### **Synonyms**

- ~~• Level 2 In Place Loan~~



## ■ **MAMP**

Multifamily Asset Management Portal used to submit Property inspections, operating statements, and requested modifications; asset management reports; and data corrections related to loan or property level attributes.

### **Synonyms**

Multifamily Asset Management Portal  
MAMP's

## ■ **Portfolio Mortgage Loan**

Mortgage Loan purchased by Fannie Mae and held as of a certain date regardless of whether it is a Cash Mortgage Loan or an MBS Mortgage Loan.

### **Synonyms**

Portfolio Mortgage Loans  
Portfolio Mortgage Loan's