Multifamily Mortgage Business Guide Update 17-07

August 23, 2017

To: Multifamily Lenders

From: Rob Levin, Vice President for Credit and Multifamily Chief Underwriter

Subject: Guide Update Memo 17-07: Increased Delegation for Underwriting of the Property, and Updated Seismic Guidance

HIGHLIGHTS

Effective August 28, 2017, Fannie Mae is updating the Multifamily Selling and Servicing Guide (Guide) to update its seismic guidance for all Mortgage Loans, and to simplify underwriting analysis and increase Lender delegation. The following sections of the Guide are affected:

- Part IIIA, Chapter 3 – The Property;
- Part IIIB, Chapter 9 – Small Mortgage Loans; and
- Form 4099.C – Structural Risk Evaluation Questionnaire.

Changes – Underwriting Analysis and Increased Lender delegation

To simplify underwriting analysis and increase Lender delegation, the following underwriting changes have been made to the Guide:

- Part IIIA, Chapter 3 – The Property:
  - Section 303 – Ground Leased Properties: the edits simplify the Section, and direct the user to the Ground Lease Review Checklist (Form 6479);
  - Section 305 – Commercial Leases: the edits align the “Commercial Lease” definition on front end underwriting with the back end asset management, and increase Lender delegation for the review and underwriting of certain Commercial Leases, with the exception of (i) leases containing any Property Assessed Clean Energy (PACE) financing, or (ii) short-term lodging leases (i.e., for one month or less), such as through a peer-to-peer online marketplace or homestay network (e.g., Airbnb);
  - Section 311 – Property Income Analysis: clarifies the addition/subtraction of Premiums and Corporate Premiums in the calculation of Underwritten Net Cash Flow;
  - Section 316 – Property Condition Assessment: the edits sync (i) the requirements for an HPB Report and the consultant qualifications with the recently published update to Form 4099 – Instructions for Performing a Multifamily Property Condition Assessment, and (ii) the Seismic requirements in the PCA with the revisions to the Seismic section;
  - Section 317 – Completion/Repairs: delegates to Lenders the authority to permit Completion/Repairs for Life Safety items to be completed within 60 days after the Mortgage Loan Origination Date for acquisition transactions only. For a refinance, life safety Completion/Repairs are still required to be completed prior to purchase of the Mortgage Loan by Fannie Mae;
Section 318 – Replacement Reserve: clarifies that the use of underwritten replacement reserve expense must be used in the Lender's calculation of Underwritten Net Cash Flow, regardless of whether the Borrower’s requirement to make deposits may be waived or reduced by the Lender, as well as the time period to be covered by the Replacement Reserve and the Lender's verification responsibilities; and

Section 325 – Survey: the edits (a) remove Table A Item 11 from the standard Survey requirements, and delegate to Lenders the authority to allow the Survey to omit from Table A: (i) item 1 for a Property with a lot and block legal description, and (ii) item 10(a) if there are no part wall rights.

Part IIIB, Chapter 9 – Small Mortgage Loans:

Section 905 – Property Income Analysis: clarifies the addition/subtraction of Premiums and Corporate Premiums in the calculation of NCF for a Small Mortgage Loan; and

Section 910 – Seismic Risk Assessment: requires Lenders to use the Part IIIA seismic risk analysis for a Small Mortgage Loan.

Changes – Seismic Risk Assessment

Part IIIA, Section 321 – The Property: In June 2016, the American Society of Testing Materials (“ASTM”) updated two standards related to seismic risk, and the Guide revisions clarify the seismic risk assessment to be undertaken by Lenders, essentially syncing the Fannie Mae seismic requirements to the current ASTM guidance. Please note that compliance with the professional qualifications does not go into effect until June 30, 2018. Servicers should inform their seismic assessment service providers that assessments for new Mortgage Loans committed on or after the effective date must meet all revised seismic standards, other than for professional qualifications.

Part IIIB, Section 910 – Small Mortgage Loans: requires Lenders to use the Part IIIA seismic risk analysis for a Small Mortgage Loan;

Form 4099C: The changes sync the guidance for the Property Condition Assessment in Form 4099C with the revised seismic requirements in the Guide.

Please refer to the Guide chapters for complete details and additional clarifying edits.

Effective Date

This Guide Update is effective August 28, 2017.

Questions

Please contact your Deal Team with any questions.

Associated Documents

The updated documents are attached, and will be published in AllRegs on the Effective Date.

- Part IIIA, Chapter 3 – The Property (clean and blackline)
- Part IIIB, Chapter 9 – Small Mortgage Loans (clean and blackline)
- Form 4099.C – Structural Risk Evaluation Questionnaire (blackline only)