**Multifamily Mortgage Business Guide Update 17-09**

**To:** Multifamily Lenders  
**From:** Rob Walton, Vice President for Debt & Equity Asset Management, Multifamily Credit Risk Management  
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**Subject:** Guide Update Memo 17-09 | Changes to Mortgage Loan Rating Classifications and Servicer Watchlist Submissions

### HIGHLIGHTS

Effective October 2, 2017, Fannie Mae is updating (i) Part V, Chapter 4 – Asset Management, and (ii) Part V, Chapter 6 – Watchlist Management to the Multifamily Selling and Servicing Guide (Guide) to:

- remove color descriptions that previously corresponded to defined Mortgage Loan rating classifications;  
- update the rating classification descriptions and/or characteristics to conform to regulatory definitions for Pass/Watch and Special Mention Assets; and  
- require Servicers provide an explanation and status of the issues causing an Asset to be reported on the Servicer Watchlist.

### Changes

Fannie Mae is revising the Guide to align with FHFA’s Advisory Bulletin 2012-02: Framework for Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Asset for Special Mention. Primary changes include:

- removing the color descriptions from each corresponding rating classification;  
- updating the Pass/Watch Asset rating classification characteristics to limit the scope to weakening credit factors that would not result in a Special Mention, Substandard, or Doubtful rating;  
- updating the Special Mention Asset rating classification to:  
  - clarify that Special Mention Assets are otherwise rated Pass or Pass/Watch;  
  - delete the classified credit characteristic that a Special Mention asset has a higher probability of default than a Pass or Pass/Watch Asset; and  
  - clarify that a Special Mention listing should be used to guide management on corrective measures that might be taken to strengthen an asset to avoid a potential deterioration in the asset’s quality;  
- updating the Special Mention Asset listing characteristics to limit the scope to known issues that do not possess classified credit characteristics, but which may negatively impact the Mortgage Loan’s credit quality in the future; and
• updating the Servicer’s reporting requirements for all Watchlist Assets to include an explanation of why the Asset is being reported, the rationale for assigning the specific rating, and an update on the current status of the issues causing the Asset to be reported.

Please refer to the actual Guide Chapter for complete details on the revisions.

Effective Date
This Guide Update is effective October 2, 2017.

Questions
Please contact David Miller at david_w_miller@fanniemae.com or (202) 752-6297, or John Collins at john_p_collins@fanniemae.com or (617) 345-8041, with any questions.

Associated Documents
On the Effective Date, the updated Guide chapter will be published on AllRegs.

• Part V, Chapter 4 – Asset Management (clean and blackline)
• Part V, Chapter 6 – Watchlist Management (clean and blackline)