Multifamily Mortgage Business Guide Update 18-07

August 15, 2018

To: Multifamily Lenders

From: Lisa F. Carlson, Vice President for Multifamily Policy and Lender Risk Management

Subject: Guide Update 18-07 – Changes to Conflict Mortgage Loan and OFAC Requirements

---

**HIGHLIGHTS**

Effective August 20, 2018, Fannie Mae is updating the Conflict Mortgage Loan and certain other requirements in Part II, Chapter 5 of the Multifamily Selling and Servicing Guide (Guide), and associated definitions in Part I – Glossary, to:

- modify and clarify the requirements when a Lender, Lender Affiliate, Lender Senior Executive, or Lender employees own, directly or indirectly, equity interests in the Borrower;
- change the definitions of Lender Senior Executive, Conflict Mortgage Loan and Prohibited Conflict Mortgage Loan, and the amount of the Lender’s Loss Sharing permitted on Conflict Mortgage Loans; and
- require notification to Fannie Mae within 24 hours if a Lender determines that any Person on the Specially Designated National list (SDN List) maintained by the U.S. Treasury Department Office of Foreign Assets Control (OFAC) is a Borrower, Key Principal, or Principal of any Portfolio Mortgage Loan.

**Primary Changes**

Fannie Mae is revising the definition of some of the terms related to Conflict Mortgage Loans as follows:

1. The definition of “Conflict Mortgage Loan” now also includes a Mortgage Loan where a Lender employee, or group of employees, owns or will own, either directly or indirectly, an equity interest in the Borrower in excess of 5%.

2. The definition of a “Prohibited Conflict Mortgage Loan”, which cannot be sold to Fannie Mae, now includes only loans where (i) the Lender or any single Lender Senior Executive owns a direct or indirect equity interest in the Borrower in excess of 5%, or (ii) any group of Lender Senior Executives owns, in the aggregate, a direct or indirect equity interest in the Borrower in excess of 10%. Previously no ownership interest was allowed.

3. The definition of a Controlling Conflict Mortgage Loan now includes any Mortgage Loan where a Lender, Lender employee or group of employees, or Lender Affiliate has Lender Control over the Borrower, Key Principal, or guarantor, or a Lender Senior Executive owns a direct or indirect equity interest in the Borrower.
4. The definition of “Lender Senior Executive” is expanded to include the following individuals which may have influence over a Lender’s decision to make a specific Mortgage Loan:
   - any individual having voting or approval rights over whether the Lender commits to making a Mortgage Loan; or
   - any family member of, or individual having a close relationship with, any other Lender Senior Executive.

The prior definition of Lender Senior Executive included president, chief executive officer, chief financial officer, chief operating officer, chief production officer, chief underwriter, chief asset manager, and/or chief legal officer and other senior executives serving in an equivalent capacity.

5. If a Conflict Mortgage Loan is approved by Fannie Mae, the Lender must take the maximum Loss Sharing percentage permitted under the Lender’s Loss Sharing framework on the Conflict Mortgage. Previously, Loss Sharing was not allowed on Conflict Mortgage Loans.

In addition, a Lender must notify Fannie Mae within 24 hours after the initial segregation, blocking, or rejection of any flow of funds related to a Portfolio Mortgage Loan for which the Servicer determines that any Person on the SDN List is a Borrower, Key Principal, or Principal. All Lenders are subject to OFAC, which requires due diligence on the part of the Lender prior to requesting a Commitment from Fannie Mae, and during the life of the Mortgage Loan for the flow of all funds.

Please refer to the Guide Chapter for complete details and other editorial changes.

Effective Date
This Guide Update is effective August 20, 2018.

Questions
Please contact Fannie Mae Multifamily Partner Risk Management with any questions.

Associated Documents
The updated documents are attached, and will be published in AllRegs on the Effective Date.
   - Part 1 – Glossary (clean and blackline)
   - Part II, Chapter 5 – Maintaining Business Eligibility (clean and blackline)