Multifamily Mortgage Business Lender Memo 19-02

February 1, 2019

To: Multifamily Lenders
From: Christina Flynn, Vice President for Credit Underwriting
Subject: Small Mortgage Loans, Hybrid ARM Loans, and Property Inspection Protocols

HIGHLIGHTS

Effective February 4, 2019, Fannie Mae is:

- increasing the maximum Small Mortgage Loan amount eligible for underwriting pursuant to Part IIIB, Chapter 9 of the Multifamily Selling and Servicing Guide (Guide) to $6 million;
- increasing the maximum Hybrid Adjustable Rate Mortgage Loan (Hybrid ARM Loan) amount to $6 million in Part IIIC, Chapter 12; and

Updated Underwriting and Asset Management Guidance

To expand Lender delegation and increase availability for Small Mortgage Loans, Fannie Mae is revising the Guide definition for Small Mortgage Loan underwriting and asset management. A “Small Mortgage Loan” will be any Mortgage Loan which:

- has an original loan amount less than or equal to $6 million; and
- is underwritten pursuant to Part IIIB, Chapter 9 of the Guide.

Market Alignment

The increased maximum loan amount for Small Mortgage Loan Underwriting will apply to all markets.

Hybrid ARM Loans

Fannie Mae is also aligning the maximum Hybrid ARM Loan amount to be less than or equal to $6 million, regardless of the size of the Property.

Associated Asset Management Revisions

With the increase in the maximum loan amount for Small Mortgage Loans, asset management requirements for all Portfolio Mortgage Loans will also align with the updated definition for Small Mortgage Loans. In Part V, Chapter 5, for all newly-acquired Mortgage Loans and all Portfolio Mortgage Loans that meet the revised Small Mortgage Loan definition, the following changes are made in conjunction with the new definition:

- quarterly financial reporting is not required, and no waiver is needed, for any Mortgage Loan secured by a Cooperative Property or any Small Mortgage Loan, unless it:
is on Fannie Mae’s Watchlist; or
- has a most recent property inspection rating of 4 or 5; and

- the Property Inspection Protocols for Small Mortgage Loans are being revised as shown in Exhibit A to this Lender Memo.

**Effective Date**

This Lender Memo is effective February 4, 2019.

**Questions**

Please contact your Fannie Mae Deal Team with any questions.
# REVISED PROPERTY INSPECTION PROTOCOLS

## PROPERTY INSPECTION PROTOCOL

<table>
<thead>
<tr>
<th>Mortgage Loan Type</th>
<th>Fannie Mae Mortgage Loan Rating</th>
<th>Inspection Frequency</th>
<th>Minimum % of Total Units to be Inspected</th>
<th>Minimum/Maximum Number of Units to be Inspected</th>
<th>Minimum Required Photographs</th>
<th>Third Party or In-House Inspector</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Mortgage Loans, other than Seniors Housing Mortgage Loans and DUS Plus™</td>
<td>Pass or Special Mention</td>
<td>Annual Full Inspection</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
</tr>
<tr>
<td>Seniors Housing Mortgage Loans</td>
<td>Pass or Special Mention</td>
<td>Annual Full Inspection</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
</tr>
<tr>
<td>DUS Plus</td>
<td>All Ratings</td>
<td>Annual Full Inspection</td>
<td>10% (maximum of 20 units)</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
</tr>
</tbody>
</table>
### Protocol if Original Mortgage Loan Amount is Greater than $6,000,000 and up to $30,000,000

*(NOTE: When the inspection protocol below is based, in part, on the Debt Service Coverage Ratio (DSCR), the DSCR must be based on the most recent annual financial statement submitted to Fannie Mae. A Property with a most recent inspection rating of 4 or 5 must have an Annual Full Inspection, regardless of the DSCR test outlined below.)*

<table>
<thead>
<tr>
<th>Mortgage Loan Type</th>
<th>Fannie Mae Mortgage Loan Rating</th>
<th>Inspection Frequency</th>
<th>Minimum % of Total Units to be Inspected&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Minimum/Maximum Number of Units to be Inspected&lt;sup&gt;2&lt;/sup&gt;</th>
<th>Minimum Required Photographs</th>
<th>Third Party or In-House Inspector</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Mortgage Loans other than Seniors Housing Mortgage Loans and DUS Plus</td>
<td>Pass or Special Mention; DSCR greater than or equal to 1.35, or Co-op DSCR greater than or equal to 1.00</td>
<td>Full Inspection every 2 Years; Annual Full Inspection if current year DSCR not available</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Pass or Special Mention; DSCR less than 1.35, or Co-op DSCR less than 1.00</td>
<td>Annual Full Inspection</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
</tr>
<tr>
<td>Seniors Housing Mortgage Loans</td>
<td>Pass or Special Mention</td>
<td>Annual Full Inspection</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
</tr>
<tr>
<td>DUS Plus</td>
<td>All Ratings</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
</tr>
<tr>
<td>All Maturing Mortgage Loans</td>
<td>All Ratings</td>
<td>Full Inspection due within the 12 months prior to Maturity Date&lt;sup&gt;12&lt;/sup&gt;</td>
<td>Follow requirements for applicable Mortgage Loan type.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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<sup>1</sup> Minimum % of Total Units to be Inspected

<sup>2</sup> Minimum/Maximum Number of Units to be Inspected
### Protocol if Original Mortgage Loan Amount is $6,000,000 or Less

(NOTE: A Property with a most recent inspection rating of 4 or 5 must have an Annual Full Inspection. This does not apply to any Mortgage Loan with an original principal amount of less than $750,000.)

<table>
<thead>
<tr>
<th>Mortgage Loan Type</th>
<th>Fannie Mae Mortgage Loan Rating</th>
<th>Inspection Frequency</th>
<th>Minimum % of Total Units to be Inspected$^1$</th>
<th>Minimum/Maximum Number of Units to be Inspected$^2$</th>
<th>Minimum Required Photographs</th>
<th>Third Party or In-House Inspector</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Mortgage Loans other than Seniors Housing Mortgage Loans</td>
<td>Pass or Special Mention, and original Mortgage Loan amount less than $750,000</td>
<td>Walk Around every 5 Years</td>
<td>N/A</td>
<td>N/A</td>
<td>10</td>
<td>Third Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Pass or Special Mention, and original Mortgage Loan amount from $750,000 up to and including $6,000,000</td>
<td>Full Inspection every 2 Years</td>
<td>5%</td>
<td>2/5</td>
<td>10</td>
<td>Third Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Substandard or Doubtful, and original Mortgage Loan amount less than or equal to $6,000,000</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>2/5</td>
<td>10</td>
<td>In-House Only</td>
</tr>
<tr>
<td>Seniors Housing Mortgage Loans</td>
<td>Pass or Special Mention</td>
<td>Annual Full Inspection</td>
<td>5%</td>
<td>5/15</td>
<td>15</td>
<td>Third Party or In-House</td>
</tr>
<tr>
<td></td>
<td>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
</tr>
<tr>
<td>All Maturing Mortgage Loans</td>
<td>All Ratings</td>
<td>Full Inspection due within 12 Months Prior to Maturity Date$^3$</td>
<td>Follow requirements for applicable Mortgage Loan type.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. The number of units to be inspected based on the Minimum Percentage Requirement should not exceed the Maximum Number of Units.

2. For a Property with 10 units or less, the minimum number of units to be inspected is 2 units. This minimum unit count is for occupied and vacant units. If the Property contains any “down” units, then all “down” units must be inspected in addition to the occupied and vacant units.

3. If the next scheduled inspection due date for a Property is less than six months prior to the Maturity Date, then the next scheduled inspection due date shall be that date which is six months prior to the Maturity Date.

**NOTE:** If a Property consists of non-contiguous parcels or scattered sites:
- all buildings on each separate parcel or site must be inspected;
- the total required number of units based on the above protocol must be allocated among each parcel in approximately the same proportion as the number of units at each parcel to the total number of units at the Property; and
- the units to be inspected at each parcel must be selected randomly, according to the above inspection protocol.