Multifamily Mortgage Business Lender Letter 17-17

October 24, 2017

To: Multifamily Lenders

From: Nancy Atwell, Vice President for Multifamily Target State and MBS Management

Subject: Lender Letter 17-17 | Updates to Multifamily Required Trade Information for Cash or MBS Loans (Form 4097) and Multifamily Additional Disclosure Guidance (Form 4098)

HIGHLIGHTS

Fannie Mae is updating the Multifamily Required Trade Information for Cash or MBS Loans and Multifamily Additional Disclosure Guidance in anticipation of the December 4, 2017 release of DUS Disclose™. These updates affect the following business Forms:

- Multifamily Required Trade Information for Cash or MBS Loans (Form 4097) is being split into separate forms to provide a new standardized format for Lender trading information:
  - Multifamily Required Trade Information for Fixed Rate Cash or MBS Loans (Form 4097.Fixed Rate); and
  - Multifamily Required Trade Information for ARM Cash or MBS Loans (Form 4097.ARM); and
- Multifamily Additional Disclosure Guidance (Form 4098), updates the items requiring Additional Disclosure.

DUS Disclose Release

On December 4, 2017, DUS Disclose will replace the Multifamily Securities Locator Service (MFSLS) as Fannie Mae’s multifamily securities disclosure website. To prepare for the release of DUS Disclose, Fannie Mae is updating Forms 4097 and 4098.

Effective Date

Fannie Mae will manage transaction settlements and disclosure publication as follows:

- Transactions that have already selected an MBS Book-Entry Date (settlement date) prior to December 1, 2017 will publish disclosure documents and data using the current process, and must use the current Form 4097 and Form 4098 for these transactions.
- Transactions that have already selected an MBS Book-Entry Date (settlement date) of either December 1, 2017 or December 4, 2017 have two options:
  1. Settle prior to December 1, 2017, and use the current Forms 4097 and 4098 for these transactions; or
2. Move the Book-Entry date to December 5, 2017 or later, and use the updated Form 4098 and the applicable Form 4097.FIXED RATE or Form 4097.ARM. Transactions that settle in December will not be permitted to publish disclosure until December 5, 2017, after the December 4, 2017 release of DUS Disclose.

- Transactions that settle on or after December 5, 2017 must use the updated Forms 4097 and 4098.

**Form 4097 Updates**

The updated Form 4097 contains information that must be provided by a Lender when trading an MBS with Fannie Mae’s Customer Service Trading Desk or a Third Party MBS Investor. These changes will provide more standardization for the Form 4097 and align the information that is being provided in the current acquisitions systems. The information provided must appear in the same order as the Form displays. Fannie Mae has provided spreadsheet templates of the Form that can be completed and used when trading. Lenders can either complete the templates provided or generate the Form exactly as it appears in the Form 4097 template. Separate versions of Form 4097 are available for Fixed Rate and ARM Loans. Changes to both templates of Form 4097 include:

- spreadsheet files with standardized Fixed Rate and ARM templates, allowing Investors to view information provided by Lenders in a consistent format;
- new data as compared to the old Form to include:
  - Issue Date;
  - Purchase Price;
  - Delivery tolerance;
  - Streamlined early rate lock (yes/no); and
  - Loan purpose (acquisition/refinance); and
- changes to terminology to align with the acquisitions systems and DUS Disclose include:
  - UW Net Cash Flow (NCF);
  - Minimum UW NCF DSCR;
  - Estimated UW NCF DSCR (IO);
  - Estimated UW NCF DSCR at Cap; and
  - Prepayment Provision string which provides the prepayment premium type and term in months.

**Form 4098 Updates**

The updated Form 4098 provides guidance to Lenders on Additional Disclosure items. The items requiring Additional Disclosure are being revised as follows.

- The following characteristics no longer require Additional Disclosure:
  - **Non-Standard Open Period** – Detailed prepayment information is provided in DUS Disclose, eliminating the Additional Disclosure requirement for a non-standard open period.
  - **Declining Prepayment** – More detailed declining prepayment information is provided in DUS Disclose, reducing Additional Disclosure requirements for some declining prepayment structures.
The following characteristics are modified:

- **Cross-Defaulted/Cross-Collateralized Loans** – More detailed guidance is provided on specific cross-defaulted and/or cross-collateralized Mortgage Loan scenarios, thereby requiring Additional Disclosure in DUS Disclose.
- **Non-Standard Events of Default and Recourse** – Events of default and/or personal recourse related to a failure to comply with the terms of an environmental indemnity agreement will require Additional Disclosure to clarify terms.

The following new characteristics have been added to Systems Additional Disclosure:

- **Hybrid ARM Loan** – Systems Additional Disclosure is required to indicate that the Mortgage Loan is a Hybrid ARM Loan, and to ensure the proper data is provided and disclosed.
- **Other Prepayment Premium** – Systems Additional Disclosure is required when “Other Prepayment Premium” is selected as the Prepayment Protection Type in the Multifamily Committing & Delivery (C&D™) system or the Multifamily Structured Facility Management System (MSFMS) system. “Other Prepayment Premium Option” is selected when prepayment schedules are not available as an allowable value in C&D and MSFMS.
- **Properties with Multiple Addresses** – A Mortgage Loan secured by a Property with multiple addresses that fits the descriptions outlined in Form 4098 must follow the guidance provided.

**Lender Training Opportunities**

Training was conducted for Lenders on October 10th, 17th and 19th. These training sessions covered multiple topics including DUS Disclose, and the changes to Forms 4097 and 4098. Please contact Derrick Lindsey to request additional training on Form 4097 and/or Form 4098.

**Overview of Fannie Mae MBS Trading Requirements**

Lenders are reminded that the Required Practices for committing and delivering a Mortgage Loan and trading a Fannie Mae MBS, as set forth in Part IVA, Chapter 302 of the Multifamily Selling and Servicing Guide, will remain unchanged with the release of DUS Disclose. The Required Practices include the following.

**Beginning to Trade**

Before initiating a trade to sell an MBS or a Cash Mortgage Loan with Fannie Mae, or an MBS Mortgage Loan with a Third Party MBS Investor, the Lender must:

1. Execute a Trading Agreement (or similar document) with the Investor.
   - For trading an MBS, an agreement must be executed between all entities who will be buying the MBS, including the Multifamily Trading Desk; and
   - For trading a Cash Mortgage Loan, an agreement must be made between the Lender and the Multifamily Trading Desk.

2. The executed Trading Agreement must detail all terms of transactions including, at a minimum:
   - Non-delivery terms and delivery tolerances;
   - Good faith deposit (amount, refund terms, liquidated and actual damages terms) in excess of the required Minimum Good Faith Deposit; and
   - Breakage fees and any related calculations; and
3. Establish a Trading Account with the Investor, and identify in writing the persons authorized to execute transactions on behalf of the entities.

Trading Activity

1. All delivery commitments between the Lender and the Investor (including both the Multifamily Trading Desk and Third Party MBS Investors) must be delivered per the terms of the trading agreement established between the parties.

2. On each transaction, the Lender must enter the trade information described in Form 4097 into the Fannie Mae acquisition system within 24 hours after Rate Lock.

3. All delivery commitments between the Lender and the Third Party MBS Investor, or between the Lender and Fannie Mae, must be documented, and must confirm the minimum data set listed in the Pre-Issuance Trading Information in Form 4097.

MBS and Cash Required Practices

An MBS may be sold to the Multifamily Trading Desk or a Third Party MBS Investor, at the Lender’s discretion, based on the terms of the transaction. Additionally, Cash Mortgage Loans may be sold to the Multifamily Trading Desk upon agreement of the terms for any specific transaction. Lenders must provide certain information to each potential Investor (including the Multifamily Trading Desk) to solicit a bid on an MBS.

Form 4097 contains the required information to be provided to each Investor related to the Mortgage Loan and Property backing each MBS. Standardizing the trading information will provide transparency, instill greater Investor confidence, and allow market makers to continue to support Fannie Mae’s MBS.

These required practices apply to all Fannie Mae Mortgage Loans and Rate Lock options, including:

- MBS Mortgage Loans;
- Cash Mortgage Loans;
- Conventional Rate Lock; and
- Streamlined Early Rate Lock.

This information must be provided no later than at Rate Lock, and must ultimately match the corresponding information provided as disclosure when the MBS is issued.

Avoiding Selective Disclosure

To ensure equal access to information, Lenders must provide the same information about an offered MBS to all potential Investors, and must not provide potential Investors with any information other than (i) the information required to be disclosed in the Form 4097, and (ii) the information the Lender has provided to Fannie Mae for inclusion in the MBS Disclosure Documents to be issued for that MBS.

Superseded Lender Letters

This Lender Letter supersedes Lender Letter 17-04 and 17-05.

Contact Us

For questions, please contact:

- Derrick Lindsey at 202-752-2426 (or derrick_m_lindsey@fanniemae.com) regarding Form 4097; or
• Patty Lafean at 202-752-6240 (or patty_l_lafean@fanniemae.com) regarding Form 4098.

Associated Documents
The clean versions of Forms 4097.Fixed Rate and 4097.ARM are now available at fanniemae.com/multifamily. The revised version of Form 4098 is attached, and will be available at fanniemae.com/multifamily prior to the DUS Disclose release.

• Multifamily Required Trade Information for Fixed Rate Cash or MBS Loans (Form 4097.Fixed Rate)
• Multifamily Required Trade Information for ARM Cash or MBS Loans (Form 4097.ARM)
• Multifamily Additional Disclosure Guidance (Form 4098) (clean and blacklined versions)