# PART I – GLOSSARY

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Part I – Glossary

This Part I – Glossary sets forth the meaning of certain capitalized terms used in this Guide. The Chapters contained within the Parts of this Guide also contain defined terms that are unique to the situation and are found within those specific Chapters.

Please see Appendix A for definitions of and information on key people, groups and teams at Fannie Mae (“Fannie Mae Contacts”).

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(c) any Person Controlled by, under common Control with, or which Controls, Borrower or Key Principal;

(d) any entity in which Borrower or Key Principal directly or indirectly owns, with the power to vote, twenty percent (20%) or more of the ownership interests in such entity, or

(e) any other individual that is related (to the third degree of consanguinity) by blood or marriage to Borrower or Key Principal.

Affordable Regulatory Agreement (07/10/17) A regulatory agreement or land use restriction agreement that limits rents, imposes maximum income restrictions on tenants, or places other affordability restrictions on the use or occupancy of the Property, and which must be recorded in the local real estate records.

Age Restricted MH Community (or Age Restricted Manufactured Housing Community) (06/02/14) As defined in Part IIIB, Section 601.

Aggregate Restricted Liquidity Requirement (08/25/14) The minimum amount required to be reserved by the Lender pursuant to Part II, Section 403.

Aggregation (06/02/14) Mortgage Loans purchased by Fannie Mae under the “Aggregation Product Line.”

All-Age MH Community (or All-Age Manufactured Housing Community) (06/02/14) As defined in Part IIIB, Section 601.

All Appropriate Inquiries (06/02/14) All inquiries or investigations into, among other things, the condition of, previous or current ownership of and/or current or past uses of a property, and all other inquiries or investigations for the purposes of establishing “all appropriate inquiries” under CERCLA, 42 U.S.C. § 9601(35)(B) and/or for the purposes of fulfilling the applicable requirements of 40 C.F.R. Part 312, as the foregoing may be amended or superseded from time to time.
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<th>Term</th>
<th>Description</th>
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<tr>
<td>Allocable Facility Amount (AFA) (06/02/14)</td>
<td>In a Credit Facility, the amount of debt allocated to a given Property, used in calculation of monitoring tests and other tests for collateral activity such as releases, substitutions, and additions.</td>
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<td>Allocable Percentage (08/25/14)</td>
<td>As defined in the Master Loss Sharing Agreement.</td>
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<td>ALTA (06/02/14)</td>
<td>American Land Title Association</td>
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<td>Alzheimer’s/Dementia Care (10/13/14)</td>
<td>With respect to a Seniors Housing Property, as defined in Part IIIB, Section 502.</td>
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<tr>
<td>Americans with Disabilities Act (06/02/14)</td>
<td>Public Law 101-336 (42 U.S.C. § 12101 et seq.) as amended or superseded from time to time.</td>
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<tr>
<td>AMI (06/02/14)</td>
<td>Area Median Income</td>
</tr>
<tr>
<td>AML (08/25/14)</td>
<td>Anti-money laundering</td>
</tr>
<tr>
<td>Amortization</td>
<td>Gradual reduction of the Mortgage Loan debt through installment payments scheduled over the Mortgage Loan term.</td>
</tr>
<tr>
<td>Applicant Experience Check (ACheck™) (06/02/14)</td>
<td>Part of the required due diligence to be performed by the Lender for the Borrower and each Key Principal and Principal of the Borrower in connection with both initial applications and assumptions of Mortgage Loans. The ACheck application is located at: <a href="https://www.fanniemae.com/multifamily/acheck">https://www.fanniemae.com/multifamily/acheck</a>.</td>
</tr>
<tr>
<td>Appraisal (02/22/16)</td>
<td>A written statement independently and impartially prepared by a qualified appraiser setting forth an opinion as to the market value of the Property as of a specific date, supported by the presentation and analysis of relevant market information, and conforming to the requirements of Part IIIA, Section 310.</td>
</tr>
<tr>
<td>Appraisal Notice (08/25/14)</td>
<td>As described in Part II, Section 603.02.</td>
</tr>
<tr>
<td>Appraised Value (02/22/16)</td>
<td>The appraiser’s opinion of the market value of the Property set forth in the Appraisal, on an “as is” basis, unless use of the Appraised Value on an “as completed” basis is specifically permitted by the Guide.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<td>Approved Appraisers</td>
<td>As described in the Master Loss Sharing Agreement.</td>
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<td>(08/25/14)</td>
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<td>Approved Hedge Providers List (06/02/14)</td>
<td>The current list of Fannie Mae acceptable counterparties that provide Interest Rate Hedges.</td>
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<tr>
<td>Approved Review Appraisers (08/25/14)</td>
<td>As described in the Master Loss Sharing Agreement.</td>
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<tr>
<td>Area Median Income (AMI) (07/15/16)</td>
<td>The area median income as calculated from time to time by HUD.</td>
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<td>ARM Loan (06/02/14)</td>
<td>Adjustable Rate Mortgage Loan</td>
</tr>
<tr>
<td>As Soon As Pooled (ASAP) (06/02/14)</td>
<td>The various purchase options that permit eligible Lenders to sell Mortgage Loans to Fannie Mae on an expedited basis pursuant to the applicable ASAP Contract(s).</td>
</tr>
<tr>
<td>ASAP (06/02/14)</td>
<td>As Soon As Pooled</td>
</tr>
<tr>
<td>ASAP Contract (06/02/14)</td>
<td>Individually and collectively, as applicable, the ASAP Sale Contract, the ASAP Plus Contract, and the ASAP Plus POC Contract.</td>
</tr>
<tr>
<td>ASAP Options (06/02/14)</td>
<td>The ASAP Sale and ASAP Plus (including ASAP Plus POC) purchase options as further described in Part IVA, Section 306.</td>
</tr>
<tr>
<td>ASAP Plus (06/02/14)</td>
<td>A purchase option whereby an eligible Lender can deliver individual Mortgage Loans to Fannie Mae on an accelerated basis by way of a 2-stage delivery structure before they are re-delivered to Fannie Mae for purchase pursuant to the applicable ASAP Contract.</td>
</tr>
<tr>
<td>ASAP Plus Contract (06/02/14)</td>
<td>The contractual agreement between an eligible Lender and Fannie Mae containing the terms and conditions of an ASAP Plus transaction.</td>
</tr>
<tr>
<td>ASAP Plus POC (06/02/14)</td>
<td>The purchase option whereby an eligible Lender can deliver individual Mortgage Loans to Fannie Mae on an accelerated basis by way of a 2-stage delivery structure and the issuance of a Payment Obligation Confirmation (as defined in the ASAP Plus POC Contract) before they are re-delivered to Fannie Mae for purchase pursuant to the applicable ASAP Contract.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>ASAP Plus POC Contract (06/02/14)</td>
<td>The contractual agreement between an eligible Lender and Fannie Mae containing the terms and conditions of an ASAP Plus POC transaction.</td>
</tr>
<tr>
<td>ASAP Sale (06/02/14)</td>
<td>A purchase option whereby an eligible Lender can deliver a Mortgage Loan to Fannie Mae and receive a cash payment for it, with the MBS from the Delivered Mortgage Loan being used to satisfy a trade with an MBS Investor.</td>
</tr>
<tr>
<td>ASAP Sale Contract (06/02/14)</td>
<td>The contractual agreement between an eligible Lender and Fannie Mae containing the terms and conditions of an ASAP Sale transaction.</td>
</tr>
<tr>
<td>Asset Class (01/23/17)</td>
<td>The specific type of Multifamily Property securing a Mortgage Loan (e.g., conventional multifamily, Seniors Housing Property, Manufactured Housing Community, Cooperative Property, etc.).</td>
</tr>
<tr>
<td>Asset Valuation Date (06/02/14)</td>
<td>Has the meaning given to it in a Lender’s Master Loss Sharing Agreement.</td>
</tr>
<tr>
<td>Asset Value (08/25/14)</td>
<td>As described in the Master Loss Sharing Agreement.</td>
</tr>
<tr>
<td>Assignment of Management Agreement (or Assignment Agreement) (06/02/14)</td>
<td>Form 4508, Form 6405, or any other form of assignment of management agreement approved by Fannie Mae, as amended or restated from time to time.</td>
</tr>
<tr>
<td>Assisted Living (10/13/14)</td>
<td>With respect to a Seniors Housing Property, as defined in Part IIIB, Section 502.</td>
</tr>
<tr>
<td>ASTM (06/02/14)</td>
<td>American Society for Testing Materials, and its successors and assigns</td>
</tr>
<tr>
<td>Automated Clearing House</td>
<td>An electronic drafting system that debits a Servicer’s authorized bank account and electronically transfers funds to a designated payee account.</td>
</tr>
<tr>
<td>Automated Drafting System (06/02/14)</td>
<td>The system used for processing remittances to Fannie Mae.</td>
</tr>
<tr>
<td>Term</td>
<td>Description</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
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</tr>
<tr>
<td>Balloon Mortgage Loan (06/02/14)</td>
<td>A Mortgage Loan with periodic installments of principal and interest that do not fully amortize the Mortgage Loan. The balance of the Mortgage Loan is due in a lump sum at a specified date, usually at the Maturity Date.</td>
</tr>
<tr>
<td>Bank Secrecy Act (08/25/14)</td>
<td>A federal statute enacted in 1970, and amended by subsequent laws including the USA PATRIOT Act of 2001, as amended or superseded from time to time, together with all enabling regulations, and that requires, among other things, certain record-keeping and reporting designed to overcome foreign bank secrecy laws and to deter money laundering. The primary statute is 31 U.S.C. 5311-5332.</td>
</tr>
</tbody>
</table>
| Bankruptcy Event (06/02/14)                   | Any 1 or more of the following:  
(a) the commencement, filing, or continuation of a voluntary case or proceeding under 1 or more of the Insolvency Laws by any Person;  
(b) the acknowledgment in writing by any Person (other than by the Borrower to the Lender in connection with a workout of a Mortgage Loan) that it is unable to pay its debts generally as they mature;  
(c) the making of a general assignment for the benefit of creditors by such Person;  
(d) the commencement, filing, or continuation of an involuntary case or proceeding under 1 or more Insolvency Laws against such Person; or  
(e) the appointment of a receiver, liquidator, custodian, sequestrator, trustee, or other similar officer who exercises control over such Person or any substantial part of the assets of such Person;  
provided, however, that any proceeding or case under (d) or (e) above shall not be a Bankruptcy Event until the 90th day after filing (if not earlier dismissed) so long as such proceeding or case occurred without the consent, encouragement, or active participation of such Person or an Affiliate of such Person (in which event such case or proceeding shall be a Bankruptcy Event immediately). |
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>Bifurcated Mortgage Loan (02/22/16)</td>
<td>A Mortgage Loan where the aggregate amount of the debt is divided among two separate Notes having the same (i.e., pari passu) payment priority, with both Notes being secured by a single Security Instrument. Each Note in a Bifurcated Mortgage Loan may have different loan terms (e.g., Maturity Date, required Prepayment Premium).</td>
</tr>
<tr>
<td>Blanket Bond Policy (08/25/14)</td>
<td>An insurance policy that protects against losses from acts of, or omissions by, any employee of the insured.</td>
</tr>
<tr>
<td>Bond Advance (07/15/16)</td>
<td>With respect to a Credit Enhancement Mortgage Loan, see Part XIV of the DUS Guide.</td>
</tr>
<tr>
<td>Bond Trustee (06/25/12)</td>
<td>The trustee under a Credit Enhancement Instrument or any successor trustee identified in accordance with the terms of a Credit Enhancement Instrument.</td>
</tr>
<tr>
<td>Bonds (06/02/14)</td>
<td>Tax-exempt or taxable multifamily revenue bonds, or other tax-exempt or taxable bonds, issued to finance 1 or more Properties related to a Credit Enhancement Mortgage Loan.</td>
</tr>
<tr>
<td>Book-Entry Date (or Book-entry Delivery Date or Settlement Date) (06/02/14)</td>
<td>The calendar date a Security is delivered by Fannie Mae via the Federal Reserve book-entry system to the applicable Investor’s designated book-entry account at a depository institution (also commonly known as the “settlement date”). The Book-Entry Date must be a Business Day of the calendar month in which the Issue Date of the Security occurs.</td>
</tr>
<tr>
<td>Borrower (06/02/14)</td>
<td>Any Person that is, or when a Mortgage Loan is made will become, the obligor under the Note.</td>
</tr>
<tr>
<td>Borrower Commitment (06/02/14)</td>
<td>Individually and collectively, the Lender’s written commitment with the Borrower to originate a Mortgage Loan, and any separate written or oral rate lock agreements between the Lender and the Borrower to rate lock the Mortgage Loan.</td>
</tr>
<tr>
<td>BSA (08/25/14)</td>
<td>Bank Secrecy Act</td>
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<td>Builders Risk Insurance (06/02/14)</td>
<td>Insurance that provides coverage for risks associated with construction and rehabilitation of properties.</td>
</tr>
</tbody>
</table>
Bulk Delivery (05/21/18) A Structured Transaction (also known as a Multiple Asset Transaction in some Fannie Mae systems and documents) that is governed by a Bulk Delivery Agreement, as more fully described in Part IIIC, Chapter 11.

Bulk Delivery Agreement (05/21/18) An agreement approved by Fannie Mae evidencing the terms and conditions of a Bulk Delivery, as such agreement may be amended or restated from time to time.

Business Day (06/02/14) Any day other than (a) a Saturday, (b) a Sunday, (c) a day on which Fannie Mae is closed, (d) a day on which the Federal Reserve Bank of New York is closed, or (e) with respect to any MBS or DMBS and any required withdrawal for remittance thereunder, a day on which the Federal Reserve Bank is closed in the district where any funds are held for such MBS or DMBS.

Business Environmental Risk (06/02/14) A risk that may have a material environmental or environmentally-driven impact on the business or property associated with a Property or the past, current or planned use of a Property. A business environmental risk includes all “non-scope considerations” under ASTM E 1527-13 (or, if agreed to in writing by Fannie Mae, ASTM E1527-05), Standard Practice for Environmental Site Assessments: Phase I Environmental Site Assessment Process as such may be amended or restated from time to time, and shall include, but is not limited to: asbestos or asbestos-containing materials, radon, lead-based paint, lead in drinking water, wetlands, regulatory compliance, health and safety, indoor air quality, biological agents, and mold.

C&D User Manual (06/02/14) The Multifamily Committing and Delivery User Documentation, as amended or restated from time to time.

C&D™ (07/15/16) Multifamily Committing and Delivery system

Capital Expenditures (Replacement Reserve) (07/15/16) See Replacement Reserve.


**Capitalization Rate (06/02/14)**
The percentage rate which is believed to represent the relationship between the net income a real property produces and the value of such real property.

**Cash Mortgage Loan (07/10/17)**
A Mortgage Loan purchased or intended to be purchased by Fannie Mae in exchange for cash.

**Cash Remittance System (03/30/15)**
The Fannie Mae multifamily web application that allows a Lender to enter the amounts to be drafted from its bank accounts via ACH for monthly remittances due to Fannie Mae, or any such successor system, and which is located at:

https://www.fanniemae.com/multifamily/cash-remittance-system

**Catastrophic Event (06/02/14)**
A natural or man-made hazard resulting in an event of substantial extent causing significant physical damage or destruction, loss of life, or drastic change to the natural environment such as earthquake, flood, terrorist attack and windstorm.

**CCRC (10/13/14)**
Continuing Care Retirement Community

**CERCLA (06/02/14)**
Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. §§ 9601 et seq.), as amended or superseded from time to time

**Certificate of Borrower (06/02/14)**
Form 4518 or another document approved by Fannie Mae containing the Borrower’s representations and warranties, as amended or restated from time to time.

**Chief Underwriter (06/02/14)**
The person designated by the Lender and approved by Fannie Mae that is qualified to underwrite, review, and approve multifamily real estate debt transactions. Wherever the term “Chief Underwriter” is used in this Guide, unless the meaning otherwise requires, such term shall mean the Lender’s Chief Underwriter or any designee delegated to perform underwriting tasks pursuant to Part IIIA, Section 103.

**Choice Refinance Loan (06/02/14)**
The Mortgage Loan refinancing a Portfolio Mortgage Loan utilizing the streamlined underwriting requirements described in Part IIIC, Section 302.

**CI Mezz (03/31/14)**
The Mezzanine Financing option provided by the Community Investments Mezzanine Fund.
| **Clearing Account (02/22/16)** | A Lender account at an Eligible Depository used either for (i) the receipt of funds for various loans and for the benefit of multiple investors, and from which segregated funds are transferred to specific Custodial Accounts held solely for the benefit of Fannie Mae, or (ii) for the disbursement of funds after transfer from a Fannie Mae Custodial Account. |
| **CLTA** | California Land Title Association. |
| **Collateral Agreement (06/02/14)** | An agreement under which collateral (other than the Property) may be pledged, transferred, or otherwise provided to secure the Borrower’s obligations under a Mortgage Loan, and which may include a cash collateral agreement, Achievement Agreement, Replacement Reserve Agreement, loan agreement (including the Multifamily Loan Agreement (Form 6001 series), Completion/Repair Agreement, or other contractual arrangement. |
| **Collateral Agreement Custodial Accounts (06/02/14)** | A custodial account established by the Servicer for deposit of funds received from the Borrower in connection with Collateral Agreements. |
| **Collateral Custodian** | The party named as such in the Lender Contract. |
| **Commercial Lease (06/02/14)** | A lease of the Property for commercial purposes, as more particularly described in Part IIIA, Section 305. |
| **Commitment (06/02/14)** | The contractual agreement between Fannie Mae and the Lender pursuant to which (a) Fannie Mae agrees to buy a Mortgage Loan from the Lender at a future date at a specific price, and (b) the Lender agrees to Deliver to Fannie Mae that Mortgage Loan in a manner that meets Fannie Mae’s requirements as set forth in the Guide, as such Commitment may be amended from time to time by the Lender and Fannie Mae. |
| **Commitment Amount (06/02/14)** | The anticipated Mortgage Loan amount set forth in a Commitment. |
| **Commitment Date (06/02/14)** | The date that a Commitment is confirmed by Fannie Mae as described in Part IVA, Chapter 3. |
| **Commitment Expiration Date (06/02/14)** | The date upon which a Commitment expires. |
| Completion/Repair Agreement (07/10/17) | Any of the following, together with any amendments or restatements from time to time, that evidences (i) the Borrower’s agreement to undertake Completion/Repairs and other identified capital improvements, (ii) the terms for funding such repairs, maintenance, or capital items, and (iii) the disbursement of funds from the Completion/Repair Escrow:

(a) a Completion/Repair and Security Agreement (Form 4505);

(b) the applicable parts of the Multifamily Loan Agreement (Form 6001 series), including the Required Repair Schedule to the Multifamily Loan Agreement; or

(c) another agreement approved by Fannie Mae. |
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<tr>
<td>Completion/Repair Escrow (02/22/16)</td>
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<td>Completion/Repairs (02/22/16)</td>
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<td>Compliance Monitor (06/02/14)</td>
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<td>Conflict Mortgage Loan (08/25/14)</td>
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<td>Consent to Outsourcing (08/25/14)</td>
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<td>Continuing Care Retirement Community (10/13/14)</td>
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<tr>
<td>Contract (06/02/14)</td>
</tr>
<tr>
<td>Control (06/02/14)</td>
</tr>
</tbody>
</table>
the power to direct or cause the direction of the management and operations of such entity, whether through the ownership of voting securities or other ownership interests, by contract or otherwise.

**Controlled Substances Act**

(06/02/14)

21 U.S.C. §§ 801 et seq., as amended or superseded from time to time.

**Controlling Conflict**

Mortgage Loan (08/25/14)

As described in Part 2, Section 505.02.

**Controlling Interest**

(06/02/14)

(a) with respect to any entity, the following:

1. if such entity is a general partnership or a joint venture, 50% or more of all general partnership or joint venture interests in such entity;

2. if such entity is a limited partnership:
   
   (A) any general partnership interest; or
   
   (B) 50% or more of all limited partnership interests in such entity;

3. if such entity is a limited liability company or a limited liability partnership:
   
   (A) 50% or more of all membership or other ownership interests in such entity;
   
   (B) the amount of membership or ownership interests sufficient to have the power to appoint or change any manager; or
   
   (C) the interest of any manager;

4. if such entity is a corporation (other than a Publicly-Held Corporation) with only one class of voting stock, 50% or more of voting stock in such corporation;

5. if such entity is a corporation (other than a Publicly-Held Corporation) with more than one class of voting stock, the amount of shares of voting stock sufficient to have the power to elect the majority of directors of such corporation;

6. if such entity is a trust (other than a land trust or a Publicly-Held Trust), the trustee of such trust or the ability to remove, appoint or substitute the trustee of such trust (unless the trustee of such trust after
such removal, appointment or substitution is a trustee identified in the trust agreement approved by Lender); or

(b) the power or right to control or otherwise limit or modify, directly or indirectly, the management and operations of Borrower or Key Principal, including the power to:

(1) cause a change in or replacement of the Person that controls the management and operations of Borrower or Key Principal; or

(2) limit or otherwise modify the extent of such Person’s control over the management and operations of Borrower or Key Principal.

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<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative Gross Sellout Value (10/13/14)</td>
<td>As defined in Part IIIB, Section 801.</td>
</tr>
<tr>
<td>Cooperative Maintenance Fee (10/13/14)</td>
<td>As defined in Part IIIB, Section 801.</td>
</tr>
<tr>
<td>Cooperative Maintenance Fee Accounts Receivable (10/13/14)</td>
<td>As defined in Part IIIB, Section 801.</td>
</tr>
<tr>
<td>Cooperative Market Rental Basis (10/13/14)</td>
<td>As defined in Part IIIB, Section 801.</td>
</tr>
<tr>
<td>Cooperative Mortgage Loan (06/02/14)</td>
<td>A Mortgage Loan secured by a lien on a Cooperative Property.</td>
</tr>
<tr>
<td>Cooperative Operating Reserve (07/15/16)</td>
<td>As defined in Part IIIB, Section 801.</td>
</tr>
<tr>
<td>Cooperative Organization (10/13/14)</td>
<td>As defined in Part IIIB, Section 801.</td>
</tr>
<tr>
<td>Cooperative Property (10/13/14)</td>
<td>As defined in Part IIIB, Section 801.</td>
</tr>
<tr>
<td>Cooperative Property Eligible Market (12/31/12)</td>
<td>As listed in the Multifamily Underwriting Standards.</td>
</tr>
<tr>
<td>Cooperative Property Sponsor (10/13/14)</td>
<td>As defined in Part IIIB, Section 801.</td>
</tr>
</tbody>
</table>
**Correspondent (08/24/15)**

An Outside Party that is engaged by a Lender pursuant to a Correspondent Agreement to originate Mortgage Loans for the Lender or perform certain tasks in the origination process that are generally performed by the Lender’s employees.

**Correspondent Agreement (08/25/14)**

An agreement between a Correspondent and a Lender that permits the Correspondent to originate Mortgage Loans for the Lender to underwrite and deliver to Fannie Mae, as described in Part II, Section 510.01.

**Co-Tenant Borrower (06/02/14)**

A Borrower consisting of tenants-in-common that own the Property in equal or unequal shares.

**Coterminous Supplemental Mortgage Loan (10/13/14)**

A Supplemental Mortgage Loan, that has the same Maturity Date as the Senior Mortgage Loan as further described in Part III, Section 202.

**Course of Action (06/02/14)**

With respect to Non-Performing Mortgage Loans, loss mitigation activities as described in Part V, Chapter 7.

**Credit Enhancement Fee (06/02/14)**

The fee due to Fannie Mae in connection with a Credit Enhancement Instrument.

**Credit Enhancement Instrument (06/02/14)**

An instrument issued by Fannie Mae to a Bond Trustee, a collateral agreement between Fannie Mae and a Bond Trustee or such other agreement, instrument, or other document entered into by Fannie Mae, pursuant to which Fannie Mae provides:

(a) credit enhancement of (1) a Credit Enhancement Mortgage Loan, (2) Bonds issued to finance a Credit Enhancement Mortgage Loan, or (3) an Interest Rate Hedge Agreement; and

(b) if applicable, a liquidity facility with respect to an issuance of Bonds.

**Credit Enhancement Mortgage Loan (06/02/14)**

Any Mortgage Loan financed by the issuance of 1 or more Bonds for which Fannie Mae is providing a Credit Enhancement Instrument, and with respect to which the Lender is providing underwriting, mortgage servicing, and other services pursuant to the Lender Contract, and, if applicable, a servicing agreement.
Credit Facility (05/21/18) A Structured Transaction (also known as a Multiple Asset Transaction in some Fannie Mae systems and documents) that is governed by a Master Credit Facility Agreement, as more fully described in Part IIIC, Chapter 11.

Credit Facility Fee (06/02/14) With respect to Bond Credit Enhancements, see definition of Facility Fee.

Credit Support and Collateral Pledge Agreement (08/24/15) An agreement executed by Fannie Mae and the Lender pursuant to which the Lender agrees to provide credit support and post collateral to secure its obligations under the Lender Contract.

CUSIP (06/02/14) A nine-digit security identification number that is required for the book-entry system and is assigned by Fannie Mae. The number uniquely identifies the Fannie Mae MBS Pool or DMBS Pool to which it is assigned.

Custodial Account (06/02/14) Accounts established by the Servicer for deposit of principal and interest payments, tax and insurance funds, Collateral Agreement deposits, and other similar funds.

Data Breach (07/10/17) An incident of unauthorized access to, or use of, an individual’s personal information that results in any loss, unauthorized use, disclosure, unauthorized access, or unauthorized acquisition of information that is considered Nonpublic Personal Information (NPI).

Data Breach Notice (07/10/17) A written notice delivered to Fannie Mae following the Lender’s determination that a Data Breach might have occurred, and which complies with the requirements of Part II, Chapter 5.

Date of Default (06/02/14) The date of the initial Payment Default or Performance Default, as defined in Part V, Section 703.

DDF (06/02/14) Document Delivery Facility

Deal ID (06/02/14) For a Structured Transaction, the MultiDocExpress folder number assigned by MSFMS.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deal Management System (DMS) (07/15/16)</td>
<td>See DUS Gateway.</td>
</tr>
<tr>
<td>Debt Service Coverage Ratio (DSCR) (07/15/16)</td>
<td>For any specified period (or if no period is specified, on an annual basis), the ratio of Net Cash Flow to the total of (i) Principal and Interest, plus (ii) payments required on any Mezzanine Financing or Hard Preferred Equity.</td>
</tr>
<tr>
<td>Decontrol Event (06/02/14)</td>
<td>For Properties located in New York City, an event that causes a property or unit to be removed from rent control but subject to rent-stabilization pursuant to New York City rent stabilization laws.</td>
</tr>
<tr>
<td>Dedicated Student Housing Property (Dedicated Student Housing) (06/02/14)</td>
<td>A multifamily rental property in which 80% or more of the units are leased to undergraduate or graduate students.</td>
</tr>
<tr>
<td>Defeasance (06/02/14)</td>
<td>A transaction in which a Property is released from the lien of the Security Instrument and the Lender receives, as substitute collateral, a valid and perfected lien and security interest in substitute collateral acceptable to Fannie Mae and the cash flows thereunder.</td>
</tr>
<tr>
<td>Delegated Transaction Form (05/21/18)</td>
<td>The Multifamily Asset Management Delegated Transaction Form (Form 4636.series) used to determine whether certain asset management requests from a Borrower are delegated to the Servicer, as such agreements may be amended or restated from time to time.</td>
</tr>
<tr>
<td>Delinquency Advance (06/02/14)</td>
<td>For Primary and Secondary Risk Mortgage Loans, an amount advanced by a primary servicer in respect of regularly scheduled monthly interest or principal due on 1 or more Mortgage Loans, to the extent required under its Lender Contract. For Secondary Risk Mortgage Loans only, in addition to the above, any amount advanced by a Primary Servicer in respect of all accrued but unpaid interest and principal due on 1 or more Mortgage Loans at the applicable Maturity Date of each relevant Mortgage Loan.</td>
</tr>
<tr>
<td>Delivered Mortgage Loan Amount (06/02/14)</td>
<td>The UPB of a Mortgage Loan at the time such Mortgage Loan is purchased by Fannie Mae.</td>
</tr>
</tbody>
</table>
| Delivery (06/02/14)                                                 | Collectively, the satisfaction of all of the data delivery requirements in Part IVA, Chapter 4, and the submission to Fannie Mae of an acceptable Mortgage Loan Delivery Package as set forth in Part IVA, Chapter 5. In order for a
Mortgage Loan to be deemed “Delivered,” all documents, data, and information shall be correct, accurate, and able to be certified by Fannie Mae, with all required documents properly completed, executed, and recorded (if applicable), and any deficiencies resolved to Fannie Mae’s satisfaction.

<table>
<thead>
<tr>
<th><strong>Delivery Deadline (06/02/14)</strong></th>
<th>As defined in Part IVA, Section 401 with respect to the Delivery of a Mortgage Loan for purchase by Fannie Mae.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Delivery Tolerance (06/02/14)</strong></td>
<td>As defined in Part IVA, Section 401 with respect to the Delivery of a Mortgage Loan for purchase by Fannie Mae.</td>
</tr>
<tr>
<td><strong>Disclosure Documents (05/21/18)</strong></td>
<td>The disclosure documents for an Investor related to a particular Securitized Mortgage Loan, which may include the MBS Trust Agreement, Prospectus, Prospectus Supplement, and any related documents.</td>
</tr>
<tr>
<td><strong>Discount Mortgage Backed Security (DMBS) (06/02/14)</strong></td>
<td>A short term, non-interest bearing Security that is backed by a mortgage lien on a Property.</td>
</tr>
<tr>
<td><strong>DLA Mezzanine Financing (02/04/19)</strong></td>
<td>DUS Lender Affiliate Mezzanine Financing.</td>
</tr>
<tr>
<td><strong>DLA Mezzanine Lender (02/04/19)</strong></td>
<td>A Lender Affiliate that is approved to make DLA Mezzanine Financing to a Borrower in accordance with Part IIIC, Chapter 10.</td>
</tr>
<tr>
<td><strong>DMBS (06/02/14)</strong></td>
<td>Discount Mortgage Backed Security</td>
</tr>
<tr>
<td><strong>DMBS Discount Amount (05/21/18)</strong></td>
<td>With respect to a DMBS, the amount determined by subtracting the purchase proceeds amount of the DMBS from the face amount of the DMBS issued, as further discussed in Part V, Section 209.</td>
</tr>
<tr>
<td><strong>DMBS Discount Payment (06/02/14)</strong></td>
<td>The monthly payments remitted to the Lender by the Borrower in connection with a DMBS Mortgage Loan that equal the applicable DMBS Discount Amount (divided by the number of months in the DMBS term).</td>
</tr>
<tr>
<td><strong>DMBS Mortgage Loan (06/02/14)</strong></td>
<td>A Mortgage Loan purchased or intended to be purchased by Fannie Mae in exchange for the issuance of DMBS.</td>
</tr>
<tr>
<td><strong>DMBS Pool (06/02/14)</strong></td>
<td>One or more DMBS Mortgage Loans that back an individual DMBS.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Document Custodian</strong></td>
<td>A Person that maintains custody of the Notes (and may have custody of other Loan Documents or supplemental collateral) relating to 1 or more Mortgage Loans for and on behalf of Fannie Mae or any trustee pursuant to the Trust Documents. Either an unaffiliated third party or any of the following Persons, or an affiliate of any of the following Persons, may serve as a Document Custodian: Fannie Mae, the Lender, a Servicer, Special Servicer, or a Subservicer; provided that any Document Custodian will be required to hold documents in accordance with Fannie Mae’s applicable document custodial requirements.</td>
</tr>
<tr>
<td><strong>Document Delivery Facility (DDF)</strong></td>
<td>The Fannie Mae team responsible for taking custody of and certifying Mortgage Loans. Also known as the Multifamily Certification and Custody Team.</td>
</tr>
<tr>
<td><strong>DocWay™</strong></td>
<td>A business-to-business electronic documentation delivery application for the delivery of documents by the Lender to Fannie Mae, or any such successor system, and which is located at: <a href="https://home.fanniemae.com/docway/Login.jsp">https://home.fanniemae.com/docway/Login.jsp</a></td>
</tr>
<tr>
<td><strong>Drafting Account</strong></td>
<td>A Custodial Account established by the Lender for the benefit of Fannie Mae and for which Fannie Mae has authority to transfer funds.</td>
</tr>
<tr>
<td><strong>DSCR (06/02/14)</strong></td>
<td>Debt Service Coverage Ratio</td>
</tr>
<tr>
<td><strong>Dual Appraisal Approach</strong></td>
<td>As described in the Master Loss Sharing Agreement.</td>
</tr>
<tr>
<td><strong>Dual Commitment Option</strong></td>
<td>For ERL Mortgage Loans and Streamlined Rate Lock Mortgage Loans that are subject to trades with the Multifamily Trading Desk, the ability of the Lender to increase the Rate Lock Amount of the Mortgage Loan, as described in Part IVB, Chapter 1.</td>
</tr>
<tr>
<td><strong>DUS (06/02/14)</strong></td>
<td>Delegated Underwriting and Servicing.</td>
</tr>
<tr>
<td><strong>DUS Capital Standards</strong></td>
<td>As to any Lender, the Minimum Acceptable Net Worth, Operational Liquidity, and Restricted Liquidity, each of which is calculated and limited as provided on the DUS Capital Calculation Requirements (Form 4165).</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<td>-------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>DUS Disclose</strong> (07/15/16)</td>
<td>The Fannie Mae multifamily system that provides disclosure to Investors on a multifamily Security, or any such successor systems.</td>
</tr>
<tr>
<td><strong>DUS Gateway</strong> (07/15/16)</td>
<td>The Fannie Mae multifamily front-end management system that includes deal registration, Pre-Review, and/or waiver tracking, decision records, or any such predecessor or successor systems.</td>
</tr>
<tr>
<td><strong>DUS Guide</strong> (06/02/14)</td>
<td>The Fannie Mae Delegated Underwriting and Servicing Guide.</td>
</tr>
<tr>
<td><strong>DUS Lender</strong> (06/02/14)</td>
<td>A lender that has been designated as such by Fannie Mae as described in Part II, Section 303.</td>
</tr>
<tr>
<td><strong>DUS Lender Affiliate Mezzanine Financing</strong> (DLA Mezzanine Financing) (02/04/19)</td>
<td>The Mezzanine Financing option provided by an approved DLA Mezzanine Lender pursuant to Part IIIC, Chapter 10.</td>
</tr>
<tr>
<td><strong>DUS Plus™</strong> (03/31/14)</td>
<td>The Mezzanine Financing option provided by the Fannie Mae-designated mezzanine Lender.</td>
</tr>
<tr>
<td><strong>DUS Pricing Memo</strong> (07/15/16)</td>
<td>The communication sent to a DUS Lender from Fannie Mae that sets forth the pricing for various products and Asset Classes.</td>
</tr>
<tr>
<td><strong>E</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Early Rate Lock</strong> (06/02/14)</td>
<td>A Rate Lock on a Mortgage Loan that is obtained earlier in the underwriting process than is available for a non-ERL Mortgage Loan as further described in Part IVB, Chapter 1.</td>
</tr>
<tr>
<td><strong>Eastern Time</strong> (ET)</td>
<td>The time in the Eastern time zone without regard to whether Eastern standard time or Eastern daylight saving time is observed.</td>
</tr>
<tr>
<td><strong>Effective Gross Income (EGI)</strong> (07/15/16)</td>
<td>For any specified period of time (or if no period is specified, on an annual basis), the total of (i) Net Rental Income, plus (ii) other income, as generally described in Part III, Section 311, and as adjusted for the specific Asset Class, product feature, or execution in Part IIIB or Part IIIC.</td>
</tr>
</tbody>
</table>
**Efficiency Measures**

(05/21/18)

Energy- and water-efficiency measures that the Borrower agrees to implement, and which project the reduction in the Property’s annual energy or water consumption required to qualify as a Green Rewards Mortgage Loan.

**EGI**

(06/02/14)

**Effective Gross Income**

**Eligible Depository (05/21/18)**

Any (a) Federal Reserve Bank, (b) Federal Home Loan Bank, or (c) other depository institution that:

1. has its accounts insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or such other governmental insurer or guarantor as may be acceptable to Fannie Mae;

2. is rated as “well capitalized” by its applicable federal or state regulator or, if not rated by a federal or state regulator, satisfies the capital requirements that would apply for categorization as “well capitalized” under federal or state regulations; and either

3. for any depository institution with assets of $20 billion or more, has a financial rating that meets or exceeds only 1 of the following criteria if the institution is rated only by S&P or only by Moody’s, provided that if the institution is rated by both S&P and Moody’s, it must satisfy both subsections (A) and (B) below:

   (A) a short-term issuer rating by S&P of “A-2” and a long-term issuer rating of “BBB” by S&P;

   (B) a short-term bank deposit rating by Moody’s of “P-3” and a long-term bank deposit rating of “Baa2” by Moody’s; or

   (C) satisfies any other standard determined by Fannie Mae, provided that such other standard is comparable to the rating requirements set forth above; or

4. for any depository institution with assets of less than $20 billion, has a financial rating that meets or exceeds at least 1 of the following criteria:
(A) a short-term issuer rating by S&P of “A-2” and a long-term issuer rating of “BBB” by S&P;

(B) a short-term bank deposit rating by Moody’s of “P-3” and a long-term bank deposit rating of “Baa2” by Moody’s;

(C) a financial rating of 175 by IDC Financial Publishing, Inc., or its successor;

(D) a financial rating of C+ by Kroll Bond Rating Agency, Inc., or its successor; or

(E) satisfaction of any other standard determined by Fannie Mae, provided that such other standard is comparable to the rating requirements set forth above.

If a depository institution satisfies the standards in clauses (1) and (2) and has a rating that meets or exceeds at least 1 of the ratings specified in clause (3) or (4), as applicable, that depository institution will be considered an “Eligible Depository” even if another organization rates such depository institution below the minimum level specified in such clause.

**Environmental Activity and Use Limitations (06/02/14)**

Legal or physical restrictions or limitations on the use of, or access to, all or any portion of a site or facility (or to all or any portion of the groundwater, soils, or other media at, on, about or under a site or facility) to reduce or eliminate potential exposure to Hazardous Materials or to prevent activities that could interfere with the effectiveness of a Hazardous Materials removal, response or remediation.

**Environmental Indemnity Agreement (06/02/14)**

An agreement on Form 6085 (series) (or any other environmental indemnity agreement approved by Fannie Mae), as any such agreement may be amended or restated from time to time.

**Environmental Laws (or “environmental laws”) (06/02/14)**

All (a) present and future federal, state, and local laws, ordinances, regulations, standards, rules, policies, and other governmental requirements, administrative rulings, court judgments, and decrees, and all amendments thereto, relating to pollution or protection of human health, wildlife, wetlands, natural resources or the environment (including ambient air, surface water, ground water, land surface, or subsurface strata) including such laws governing or regulating the use, generation, storage, removal, remediation, recovery,

<table>
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<tr>
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<tbody>
<tr>
<td>Environmental Professional (06/02/14)</td>
<td>An individual meeting the education, training, and experience requirements as set forth in 40 C.F.R. § 312.10(b) as such section may amended or restated from time to time.</td>
</tr>
<tr>
<td>Environmental Site Assessment (ESA) (06/02/14)</td>
<td>A report that identifies whether a Property is subject to Recognized Environmental Conditions or Business Environmental Risks. There are two types of ESAs: a Phase I ESA and a Phase II ESA.</td>
</tr>
<tr>
<td>EPA (06/02/14)</td>
<td>U.S. Environmental Protection Agency</td>
</tr>
<tr>
<td>ERL (06/02/14)</td>
<td>Early Rate Lock</td>
</tr>
<tr>
<td>ERL Agreement (02/22/16)</td>
<td>An agreement on Form 6428 between the Borrower and Lender pertaining to the Rate Lock of an ERL Mortgage Loan (or any other early rate lock agreement approved by Fannie Mae), as any such agreement may be amended or restated from time to time.</td>
</tr>
<tr>
<td>ERL Mortgage Loan (06/02/14)</td>
<td>A Mortgage Loan rate locked using an ERL as described in Part IVB, Chapter 1.</td>
</tr>
<tr>
<td>ESA (06/02/14)</td>
<td>Environmental Site Assessment</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<td>-------------------------------------------</td>
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</tr>
<tr>
<td>eServicing (03/30/15)</td>
<td>The Fannie Mae multifamily servicing system used by the Servicer to report Mortgage Loan level information for all Mortgage Loans other than Credit Enhancement Mortgage Loans, or any such successor system, and which is located at: <a href="https://home.fanniemae.com/eServicing/Login.jsp">https://home.fanniemae.com/eServicing/Login.jsp</a>.</td>
</tr>
<tr>
<td>ET (06/02/14)</td>
<td>Eastern Time</td>
</tr>
<tr>
<td>Facility Fee (06/02/14)</td>
<td>With respect to Bond Credit Enhancements, see Part XIV of the DUS Guide.</td>
</tr>
<tr>
<td>Fair Housing Act (06/02/14)</td>
<td>42 U.S.C. §§ 3601 <em>et seq.</em>, as amended or superseded from time to time.</td>
</tr>
<tr>
<td>Fannie Mae (06/02/14)</td>
<td>The corporation duly organized under the Federal National Mortgage Association Charter Act, as amended or superseded, 12 U.S.C. §1716 <em>et seq.</em> and duly organized and existing under the laws of the United States, or any successors or assigns.</td>
</tr>
<tr>
<td>Fannie Mae Deal Team (06/02/14)</td>
<td>The Fannie Mae personnel who are responsible for reviewing Pre-Review Mortgage Loans and waivers, among other activities.</td>
</tr>
<tr>
<td>Fannie Mae Pool Number (06/02/14)</td>
<td>The unique number generated by Fannie Mae that identifies an MBS Pool or DMBS Pool.</td>
</tr>
<tr>
<td>Fannie Mae Representative (06/02/14)</td>
<td>The applicable Fannie Mae personnel assigned from time to time to assist the Lender in responding to various business matters, including the Fannie Mae Deal Team, pricing, delivery, servicing, asset management, and other matters arising in connection with a Mortgage Loan.</td>
</tr>
<tr>
<td>FDIC (06/02/14)</td>
<td>Federal Deposit Insurance Corporation and its successors and assigns.</td>
</tr>
<tr>
<td>FEMA (06/02/14)</td>
<td>Federal Emergency Management Agency and its successors and assigns.</td>
</tr>
<tr>
<td>FHA (06/02/14)</td>
<td>Federal Housing Administration and its successors and assigns.</td>
</tr>
</tbody>
</table>
FHA Risk Sharing (08/25/14)  
As described in the Master Loss Sharing Agreement, which may be either “Standard FHA Risk Sharing” or “Green Preservation Plus”, as described in Part IIIB, Section 711.

FICO (06/02/14)  
Fair Isaac Corporation, the entity that developed the credit model from which a “FICO” credit score is derived.

Final Settlement of Loss (06/02/14)  
The determination by Fannie Mae, pursuant to the Master Loss Sharing Agreement, of the final allocation of losses to be borne by Fannie Mae and the Lender in respect of a defaulted Mortgage Loan and the payment of any amounts pursuant to such determination.

FinCEN (02/22/16)  
U.S. Treasury Department, Financial Crimes Enforcement Network, or its successor.

FIRREA (08/25/14)  
Financial Institutions Reform, Recovery, and Enforcement Act of 1989, as amended or superseded from time to time.

Fitch (07/10/17)  
Fitch ICBA, or its successor.

Fixed + 1 (06/02/14)  
A Mortgage Loan originated with a fixed interest rate term followed by an adjustable interest rate term, as described in Part IIIC, Chapter 7.

Foreclosure Event (06/02/14)  
Means:
(a) foreclosure under the Security Instrument;
(b) any other exercise by the Lender of rights and remedies (whether under the Security Instrument or under applicable law, including Insolvency Laws) as holder of the Mortgage Loan and/or the Security Instrument, as a result of which the Lender (or its designee or nominee) or a third party purchaser becomes owner of the Property;
(c) delivery by the Borrower to the Lender (or its designee or nominee) of a deed or other conveyance of the Borrower’s interest in the Property in lieu of any of the foregoing; or
(d) in Louisiana, any dation en paiement.

Foreign Person (08/25/14)  
A Person who is neither a United States citizen, nor an entity organized and existing under the laws of the United States of America, or any state or territory of the United States.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Forward Commitment</strong> (06/02/14)</td>
<td>A Fannie Mae commitment to purchase a permanent Mortgage Loan for a to-be constructed or rehabilitated Property pursuant to Part XV of the DUS Guide, in which Mortgage Loan delivery is subject to satisfaction of certain requirements, such as construction, completion, and achievement of minimum occupancy and effective gross income levels. A Forward Commitment may or may not include an advance lock of the permanent Mortgage Loan interest rate.</td>
</tr>
<tr>
<td><strong>Fractured Condominium</strong></td>
<td>A Property that is subject to a condominium regime where some of the units were sold by the developer of the condominium regime to individuals for owner-occupancy or other investors and the remaining unsold units are being used as multifamily rental housing.</td>
</tr>
<tr>
<td><strong>Fund Key Principal</strong></td>
<td>A Key Principal that is reliant on equity investments from fund investors for its continued existence.</td>
</tr>
<tr>
<td><strong>Fund Principal</strong></td>
<td>A Principal that is reliant on equity investments from fund investors for its continued existence.</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Good Faith Deposit</strong> (06/02/14)**</td>
<td>As defined in Part IVA, Section 304.</td>
</tr>
<tr>
<td><strong>GPR</strong> (06/02/14)**</td>
<td>Gross Potential Rent</td>
</tr>
<tr>
<td><strong>Green Building Certification</strong> (01/23/17)</td>
<td>See Part IIIB, Chapter 11.</td>
</tr>
<tr>
<td><strong>Green Mortgage Loan</strong> (01/23/17)**</td>
<td>See Part IIIB, Chapter 11.</td>
</tr>
<tr>
<td><strong>Green Preservation Plus Mortgage Loan</strong> (01/23/17)</td>
<td>With respect to Multifamily Affordable Housing, as defined in Part IIIB, Section 711.</td>
</tr>
<tr>
<td><strong>Green Rewards Mortgage Loan</strong> (01/23/17)</td>
<td>See Part IIIB, Chapter 11.</td>
</tr>
<tr>
<td><strong>Gross Note Rate</strong> (06/02/14)**</td>
<td>The interest rate stated in the Loan Documents.</td>
</tr>
</tbody>
</table>
**Gross Potential Rent (GPR)**

*07/15/16*

For any specified period of time (or if no period is specified, on an annual basis), the total actual and potential rent for a Property calculated as generally described in Part IIIA, Section 311, and as adjusted for the specific Asset Class, product feature, or execution in Part IIIB or Part IIIC.

**Ground Lease**

A contract for the rental of land, usually on a long term basis.

**Guaranty (06/02/14)**

Individually and collectively, any Payment Guaranty, Non-Recourse Guaranty, or other guaranty executed by a Key Principal in connection with the Mortgage Loan, as amended or restated from time to time.

**Guaranty Fee (06/02/14)**

The fee retained by Fannie Mae for credit enhancing a Mortgage Loan or assuming credit risk on a Mortgage Loan.

**Guaranty Fee Rate (03/30/15)**

The rate of the Guaranty Fee for the Mortgage Loan, expressed as an annualized percentage.

**Guide (05/21/18)**

Until the entirety of the Multifamily Selling and Servicing Guide is published, when the term “Guide” is used in the Guide, it means the Multifamily Selling and Servicing Guide and the Fannie Mae Delegated Underwriting and Servicing Guide, including any exhibits, appendices, or other referenced forms, as such Guide is amended or restated from time to time or modified or supplemented by any Lender Memo, as the context requires; provided, however, in the event a topic or area is covered in the Multifamily Selling and Servicing Guide, the Multifamily Selling and Servicing Guide shall control; provided further, however, in the event a Lender Contract specifically requires use of a particular Guide, such Guide shall control. The Fannie Mae Multifamily Selling and Servicing Guide currently contains only:

- Part I – Glossary;
- Part II – Lender Contractual Relationship;
- Part III, consisting of 3 subparts:
  - Part IIIA – Base Underwriting Requirements;
  - Part IIIB – Underwriting for Special Asset Classes; and
  - Part IIIC – Underwriting for Special Product Features or Executions;
- Part IV, consisting of 2 subparts:
Part IVA – Mortgage Loan Commitment, Delivery, and Purchase Procedures; and
Part IVB – Mortgage Loan Commitment, Delivery, and Purchase Procedures for Special Products, Executions or Features; and

- Part V – Servicing and Asset Management.

Additional Parts may be published by Fannie Mae from time to time.

Guide Update (06/02/14)

Any communication from Fannie Mae to the Lender containing Guide content that amends, restates or supersedes Guide requirements.

H

HAP (06/02/14)

Housing Assistance Payment

Hard Preferred Equity (03/31/14)

A form of Preferred Equity that requires preferred payments or returns to the holder, regardless of whether cash flow from the Property is sufficient to make such payments or returns, as further described in Part IIIC, Section 1002.

Hazardous Materials (or “hazardous materials”) (06/02/14)

Any substance, chemical, material or waste now or in the future defined as a “hazardous substance,” “hazardous material,” “hazardous waste,” “toxic substance,” “toxic pollutant,” “contaminant,” or “pollutant” within the meaning of or regulated or addressed under any Environmental Law. Without limiting the generality of the foregoing, Hazardous Materials includes: Significant Mold; petroleum and petroleum products and compounds containing them or derived from them, including natural gas, gasoline, diesel fuel, oil and other fuels and petroleum products or fractions thereof; radon; carcinogenic materials; explosives; flammable materials; infectious materials; corrosive materials; mutagenic materials; radioactive materials; polychlorinated biphenyls (PCBs) and compounds containing them; lead and lead-based paint; asbestos or asbestos-containing materials in any form that is or could become friable; underground or above-ground storage tanks, whether empty or containing any substance; pipelines constructed for the purpose of transporting Hazardous Materials, whether empty or containing any substance; any substance the presence of
which on, under or about the Property is regulated or prohibited by any governmental authority; any substance that is designated, classified or regulated pursuant to any Environmental Law; and any medical products or devices, including those materials defined as “medical waste” or “biological waste” under relevant statutes or regulations pertaining to any Environmental Law.

<table>
<thead>
<tr>
<th>HERA (08/25/14)</th>
<th>Housing and Economic Recovery Act of 2008, as amended or superseded from time to time.</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Performance Building Module (HPB Module) (07/15/16)</td>
<td>The PCA Module that assesses cost effective opportunities for increasing a Property’s energy and water efficiency with a resulting reduction in operating costs, and required to be performed for: (a) Mortgage Loans delivered under Green Preservation Plus; or (b) other Asset Classes or product types as required by Fannie Mae from time to time.</td>
</tr>
<tr>
<td>High Seismic Risk (07/10/17)</td>
<td>A strong risk of high seismic activity in an area or for a specific site, as identified by the most recent United States Geological Survey (USGS) data as having a Peak Ground Acceleration (“PGA”) equal to or greater than 0.15g (i.e., 15% of the acceleration of gravity (g) using a 10% probability of exceedance in a 50 year period), and with any Property located on a site with a High Seismic Risk requiring a Seismic Risk Assessment, as provided by Part IIIA, Section 321.</td>
</tr>
<tr>
<td>Homeowner (06/02/14)</td>
<td>With respect to a MH Community, as defined in Part IIIB, Section 601.</td>
</tr>
<tr>
<td>Housing Assistance Payment (HAP) (06/02/14)</td>
<td>A housing assistance payment provided to a Borrower by HUD in connection with a HUD Section 8 Property.</td>
</tr>
<tr>
<td>HUD (06/02/14)</td>
<td>U.S. Department of Housing and Urban Development and its successors and assigns</td>
</tr>
<tr>
<td>Hybrid ARM Loan (05/21/18)</td>
<td>A Mortgage Loan with a total term of 30 years, comprised of an initial term where interest accrues at a fixed rate, and which automatically converts to a term where interest accrues at an adjustable rate, as further described in Part IIIC, Chapter 12.</td>
</tr>
</tbody>
</table>
Hybrid ARM Loan Conversion Date (05/21/18) The date of which the Unpaid Principal Balance of a Hybrid ARM Loan automatically converts from accruing at a fixed interest rate to accruing at an adjustable interest rate, as further described in Part IIIC, Chapter 12.

I

Improvements (06/02/14) All buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now constructed or hereafter constructed or placed on the land upon which the Property is located, together with all fixtures (as defined in the Uniform Commercial Code) thereon.

In Place Loan (06/02/14) A Mortgage Loan that refinances a Portfolio Mortgage Loan that does not meet Tier 2 underwriting requirements, as further described in Part V, Chapter 8.

Independent Living (10/13/14) With respect to a Seniors Housing Property, as defined in Part IIIB, Section 502.

Index (05/21/18) An index, formula, or other specific and definite basis used for the determination of the Gross Note Rate of an adjustable rate Mortgage Loan. If the Index is no longer posted through electronic transmission, is no longer available or, in Lender’s determination, is no longer widely accepted or has been replaced as the index for similar financial instruments (regardless of whether the Index continues to be posted electronically or available), Fannie Mae will choose a new Index taking into account general comparability to the previous Index and other factors.

Initial Owners (06/02/14) With respect to any entity, the Persons who, on the Mortgage Loan Origination Date, directly or indirectly, own in the aggregate 100% of the ownership interests in the Borrower or such entity. Following an assumption of the Mortgage Loan, the Initial Owners shall be determined as of the date of the assumption.

Insolvency Laws (06/02/14) The U.S. Bankruptcy Code, 11 U.S.C. §§ 101, et seq., together with any other federal or state law affecting debtor and creditor rights or relating to the bankruptcy, insolvency, reorganization, arrangement, moratorium, readjustment of debt, dissolution, liquidation, or similar laws, proceedings, or
equitable principles affecting the enforcement of creditors’ rights, as amended or superseded from time to time, to the extent applicable to any Person.

**Interest Rate Cap (06/02/14)**

As described in Part IIIC, Chapter 4.

**Interest Rate Cap Agreement (06/02/14)**

The contract that sets forth the terms and conditions of an Interest Rate Cap.

**Interest Rate Conversion Agreement (05/21/18)**

Any of the following, together with any amendments or restatements from time to time, that sets forth the terms and conditions upon which the interest rate on a Mortgage Loan may convert from an adjustable rate to a fixed rate:

(a) for a Mortgage Loan originated using the 6000 Series Loan Documents after April 1, 2016, the applicable Interest Rate Type Provisions and Fixed Rate Conversion Option schedules to the Multifamily Loan Agreement (Form 6001 series);

(b) for a Mortgage Loan originated using the 6000 Series Loan Documents prior to April 1, 2016:

(i) Modifications to Multifamily Loan and Security Agreement (Conversion Option – ARM Loan) (Form 6226); or

(ii) Modifications to Multifamily Loan and Security Agreement (Conversion Option – SARM Loan) (Form 6225);

(c) for a Mortgage Loan originated using the 4000 Series Loan Documents:

(i) Conversion Agreement (Form 4512); or

(ii) Conversion Agreement (Structured Adjustable Rate Mortgage Loan) (Form 4512.SARM); or

(d) another agreement approved by Fannie Mae.

**Interest Rate Conversion Amendment (05/21/18)**

Any of the following, together with any amendments or restatements from time to time, that modifies or amends the Loan Documents to evidence the conversion of the interest rate on the Mortgage Loan from an adjustable rate to a fixed rate:

(a) for a Mortgage Loan originated using the 6000 Series Loan Documents, the Amendment to Multifamily Loan Agreement (Form 6227).
and Security Agreement (Conversion to Fixed Rate) (Form 6614);

(b) for a Mortgage Loan originated using the 4000 Series Loan Documents, an Amended and Restated Note, the form of which is attached to the Conversion Agreement; or

(c) another agreement approved by Fannie Mae.

**Interest Rate Hedge**

(06/02/14)

As described in Part IIIC, Chapter 4.

**Interest Rate Hedge Agreement**

(06/02/14)

The contract that sets forth the terms and conditions of an Interest Rate Hedge.

**Interest Rate Swap**

(06/02/14)

As described in Part IIIC, Chapter 4.

**Interest Rate Swap Agreement**

(06/02/14)

The contract that sets forth the terms and conditions of an Interest Rate Swap.

**Interest Reduction Payment (IRP)**

(12/31/12)

An interest reduction payment in connection with a Mortgage Loan on a HUD Section 236 Property.

**Interest Reserve Requirement**

(06/02/14)

With respect to Bond Credit Enhancements, see Part XIV of the DUS Guide.

**Internal Revenue Code**

(06/02/14)

The U.S. Internal Revenue Code of 1986, as amended or superseded from time to time.

**Investor**

(06/02/14)

Either the MBS Investor, for an MBS Mortgage Loan, or Fannie Mae, for a Cash Mortgage Loan, as applicable.

**IRP**

(06/02/14)

Interest Reduction Payment

**Issue Date**

The first day of the month of issuance of a Security.

**Issue Date Principal Balance**

(06/02/14)

With respect to each Mortgage Loan in a Security, the principal balance of the Note after crediting (a) the principal portions of the monthly installments due on or before the Issue Date of the related Security, whether or not collected, and (b) any unscheduled partial payment or other recovery of principal on a Note received on or before the Issue Date of the related Security that is not accompanied by an amount as to interest representing scheduled interest due after the month of payment.
Issuer (or “issuer”) (06/02/14) Means:
(a) In connection with Credit Enhancement Mortgage Loans, the entity that issues the Bonds;
(b) In connection with a Security, the entity that packages mortgages for sale as securities; and
(c) In connection with a Letter of Credit, the entity that issues such Letter of Credit.

J

K

Key Principal (05/21/18) The Person or Persons identified by the Lender that control and/or manage the Borrower or the Property, and determined by the Lender as critical to the successful operation and management of the Borrower and the Property, who may also be required to enter into a Guaranty.

Key Principal Portfolio (06/02/14) A Multiple Asset Transaction more fully described in Part IIIC, Section 1102.

L

Last Paid Installment The date of the last monthly payment received from the Borrower.

Lease (06/02/14) A written agreement between an owner and the tenant of a Property stipulating the conditions for possession and use of real estate for a specified period of time and rent.

Leasehold (06/02/14) Property that is held under a long-term lease or Ground Lease.

Lender (06/02/14) A Person that has been approved by Fannie Mae for the purpose of selling or servicing Mortgage Loans to or for Fannie Mae.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td>Lender Affiliate</td>
<td>As to the Lender or any proposed Lender, any other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender or such proposed Lender.</td>
</tr>
<tr>
<td>Lender AML Program</td>
<td>As described in Part II, Section 502.03.</td>
</tr>
<tr>
<td>Lender-Arranged Sale</td>
<td>An MBS that is sold to the Lender or a Third Party MBS Investor, as defined in Part IVA, Section 302.</td>
</tr>
<tr>
<td>Lender Contract (or Lender’s Contract or Contract)</td>
<td>This Guide, the Fannie Mae Mortgage Selling and Servicing Contract together with any addendum thereto executed by the Lender and Fannie Mae, and any other contractual agreement entered into by and between the Lender and Fannie Mae or any other document that contains the contractual obligations, representations, warranties, and covenants governing the sale to Fannie Mae, and servicing of Mortgage Loans for, Fannie Mae, including the sale of any Participation Interest in any such Mortgage Loan, including a Restricted Liquidity Reserve Agreement, a Master Loss Sharing Agreement, a Credit Support and Collateral Pledge Agreement, and, as the context may require in any such Lender Contract, any guaranty assuring the payment or performance of the Lender, as applicable, as any of the foregoing may be amended or restated from time to time.</td>
</tr>
<tr>
<td>Lender Control</td>
<td>As described in Part II, Section 505.02.</td>
</tr>
<tr>
<td>Lender Liquidity Requirement</td>
<td>As described in Part II, Section 403.02.</td>
</tr>
<tr>
<td>Lender Memo</td>
<td>Any communication from Fannie Mae to the Lender containing instructions or information intending to amend, modify, supplement, restate, or supersede Guide requirements without a formal Guide amendment. Lender Memos are effective until superseded by another Lender Memo or the issuance of a Guide Update.</td>
</tr>
<tr>
<td>Lender Reserve Agreement</td>
<td>An agreement executed by and among the Lender, Fannie Mae, and the Collateral Custodian, securing the Lender’s obligations under the Lender Contract.</td>
</tr>
<tr>
<td>Lender Senior Executive</td>
<td>As to any Lender, (a) its president, chief executive officer, chief financial officer, chief operating officer, chief production officer, chief underwriter, chief asset manager, and/or chief legal officer; (b) any other senior executive officer serving in a</td>
</tr>
</tbody>
</table>
capacity substantially equivalent to any of the positions described in clause (a), if titled differently; (c) any individual having voting or approval rights over whether the Lender commits to make a Mortgage Loan; or (d) any family member of, or individual having a close relationship with, any individual identified in clauses (a), (b), or (c) above.

**Lender’s Loan Committee (06/02/14)**
The person, committee, or other approving body duly authorized by the Lender to review and approve real estate financing transactions.

**Letter of Credit (06/02/14)**
An approved letter of credit that meets the requirements of Part IIA, Section 207.

**Level 2 In Place Loans (06/02/14)**
Portfolio Mortgage Loans that generally support an Underwritten DSCR not less than 5 percentage points below Tier 2 standards and have an LTV not greater than 5 percentage points above Tier 2 standards, as more specifically described in Part V, Section 802.

**Level 3 In Place Loans (06/02/14)**
Generally Portfolio Mortgage Loans with an Underwritten DSCR greater than 5 percentage points below Tier 2 standards or have an LTV greater than 5 percentage points above Tier 2 Standards, as more specifically described in Part V, Section 802.

**Liability Insurance**
Insurance coverage that offers protection against claims of the property owner’s alleged negligence or inappropriate action, which results in bodily injury or property damage.

**LIBOR (06/02/14)**
London Interbank Offered Rate

**Lien (06/02/14)**
Any lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind.

**LIHTC (06/02/14)**
Low-Income Housing Tax Credit

**Limited Equity Cooperative Property (06/02/14)**
With respect to Cooperative Properties as defined in Part IIIB, Section 801.

**Limited Power of Attorney (05/21/18)**
The legal document authorizing a Servicer to execute certain Loan Documents related to the asset management of a Mortgage Loan as attorney-in-fact on behalf of Fannie Mae.
Loan Documentation Requirements (07/15/16)

The Loan Documents described in Form 6000 that are applicable to the particular Mortgage Loan execution and/or Asset Class.

Loan Documents (06/02/14)

All of the documents evidencing or securing the debt obligation executed in connection with a Mortgage Loan, including but not limited to, as applicable, the Note, the Security Instrument, the Multifamily Loan Agreement, Collateral Agreements, any Guaranty, any Assignment of Management Agreement, and any Subordination, Non-Disturbance and Attornment Agreement, and all riders, addenda, schedules, and exhibits thereto; any and all other instruments, documents, certificates, and agreements from time to time delivered to or for the benefit of the Lender or Fannie Mae pursuant to any of the foregoing; and all amendments, restatements, supplements, and modifications thereof.

Loan Number (06/02/14)

The unique ten-digit number generated by Fannie Mae and assigned to each Mortgage Loan.

Loan-to-Value Ratio (LTV) (01/23/17)

As of any date of determination, the ratio of (a) the actual aggregate unpaid principal balance of (i) the Mortgage Loan, plus (ii) any Pre-Existing Mortgage Loans if the Mortgage Loan is a Supplemental Mortgage Loan, plus (iii) any Hard Preferred Equity, plus (iv) any Mezzanine Financing, to (b) the Lender’s Underwriting Value of the Property, expressed as a percentage. For the purpose of disclosure to Investors only in DUS Disclose:

- the “All In LTV” field in DUS Disclose is the same value as the calculation for LTV above; and
- the “LTV” field in DUS Disclose is the ratio, as of the Mortgage Loan Origination Date, of (a) the actual aggregate unpaid principal balance of (i) the Mortgage Loan, plus (ii) any Pre-Existing Mortgage Loans if the Mortgage Loan is a Supplemental Mortgage Loan to (b) the Underwriting Value of the Property, expressed as a percentage.

Loan Year (06/02/14)

The period beginning on the date of the Note and ending on the last day of the month that is twelve (12) full months after the date of the Note, and each successive twelve (12) month period thereafter.
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<tr>
<th>Term</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td><strong>London Interbank Offered Rate (LIBOR) (05/21/18)</strong></td>
<td>The ICE Benchmark Administration Limited’s (or any successor administrator) fixing of the London Inter-Bank Offered Rate for a specified period U.S. Dollar-denominated deposits as reported by Reuters through electronic transmission.</td>
</tr>
<tr>
<td><strong>Loss Level (10/24/16)</strong></td>
<td>Any allocation of losses incurred on a Mortgage Loan as agreed upon by the Lender and Fannie Mae, as applicable, which maybe Level I, Level II, Level III, as further described in the Master Loss Sharing Agreement. Standard pari passu Loss Sharing, whether first loss or pari passu, is deemed to be Loss Level I.</td>
</tr>
<tr>
<td><strong>Loss Sharing (10/24/16)</strong></td>
<td>The calculation of any loss on a Mortgage Loan and its allocation between Fannie Mae and the Lender pursuant to the Master Loss Sharing Agreement or any other written agreement between the Lender and Fannie Mae.</td>
</tr>
<tr>
<td><strong>Low-Income Housing Tax Credit (LIHTC)</strong></td>
<td>A federal program that offers tax credits to owners of eligible properties that contain low-income occupants and rent restrictions.</td>
</tr>
<tr>
<td><strong>LTV (06/02/14)</strong></td>
<td>Loan-to-Value Ratio</td>
</tr>
<tr>
<td><strong>MAH (06/02/14)</strong></td>
<td>Multifamily Affordable Housing</td>
</tr>
<tr>
<td><strong>MAH Property (06/02/14)</strong></td>
<td>With respect to Multifamily Affordable Housing, as defined in Part IIIB, Section 702.</td>
</tr>
<tr>
<td><strong>Maintenance Advances (06/02/14)</strong></td>
<td>All amounts advanced by Fannie Mae that are required to pay amounts necessary to fund (i) Property operating shortfalls, repairs, capital expenditures, and all other costs and expenses of ownership of the Property (including property and asset management fees) in excess of the Property operating income, and (ii) Property costs and expenses incurred prior to foreclosure and for which payment was required in order to facilitate the sale of the Property.</td>
</tr>
<tr>
<td><strong>MAMP (06/02/14)</strong></td>
<td>Multifamily Asset Management Portal</td>
</tr>
<tr>
<td><strong>Manufactured Home (06/02/14)</strong></td>
<td>With respect to a Manufactured Housing Community, as defined in Part IIIB, Section 601.</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Manufactured Housing Community (or Manufactured Housing Property or MH Community) (06/02/14)</strong></td>
<td>As defined in Part IIIB, Section 601.</td>
</tr>
<tr>
<td><strong>Margin (05/21/18)</strong></td>
<td>In connection with an Adjustable Rate Mortgage Loan, Structured ARM Loan, or Hybrid ARM Loan, the spread between the Index and the Gross Note Rate, which is comprised of:</td>
</tr>
<tr>
<td>(a)</td>
<td>the Investor’s required spread over the applicable Index; plus</td>
</tr>
<tr>
<td>(b)</td>
<td>the Guaranty Fee Rate; plus</td>
</tr>
<tr>
<td>(c)</td>
<td>the Servicing Fee Rate.</td>
</tr>
<tr>
<td><strong>Mark (08/25/14)</strong></td>
<td>A Fannie Mae trademark or service mark, as described in Part II, Section 514.01.</td>
</tr>
<tr>
<td><strong>Master Credit Facility Agreement (05/21/18)</strong></td>
<td>A master credit facility agreement or other master loan document approved by Fannie Mae, evidencing the terms and conditions of a Credit Facility, as such agreement may be amended or restated from time to time.</td>
</tr>
<tr>
<td><strong>Master Loss Sharing Agreement (06/02/14)</strong></td>
<td>The Fannie Mae Master Loss Sharing Agreement, between the Lender and Fannie Mae (as amended or restated from time to time).</td>
</tr>
<tr>
<td><strong>Material Commercial Lease (06/02/14)</strong></td>
<td>As defined in Part IIIA, Section 305.</td>
</tr>
<tr>
<td><strong>MATS (06/02/14)</strong></td>
<td>Multiple Asset Transactions</td>
</tr>
<tr>
<td><strong>MATS Addendum (06/02/14)</strong></td>
<td>An addendum to the Mortgage Selling and Servicing Contract executed by Lender in connection with a MATS transaction.</td>
</tr>
<tr>
<td><strong>Maturity Date (06/02/14)</strong></td>
<td>The date stated in the Loan Documents as the date all amounts due and owing under the Mortgage Loan become fully due and payable.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>Maximum Servicing Strip&lt;br&gt;(08/25/14)</td>
<td>As described in Part II, Section 512.B.</td>
</tr>
<tr>
<td>MBA</td>
<td>Mortgage Bankers Association</td>
</tr>
<tr>
<td>MBS (06/02/14)</td>
<td>Mortgage Backed Security</td>
</tr>
<tr>
<td>MBS Investor (06/02/14)</td>
<td>For MBS Mortgage Loans, either a Third Party MBS Investor (with respect to Lender-Arranged Sales) or the Multifamily Trading Desk (with respect to MBS trades with the Multifamily Trading Desk), as applicable.</td>
</tr>
<tr>
<td>MBS Mortgage Loan&lt;br&gt;(06/02/14)</td>
<td>A Mortgage Loan purchased or intended to be purchased by Fannie Mae in exchange for the issuance of MBS backed by such Mortgage Loan.</td>
</tr>
<tr>
<td>MBS Pool (06/02/14)</td>
<td>The MBS Mortgage Loan(s) that back an individual MBS.</td>
</tr>
<tr>
<td>Medicaid Funds (10/13/14)</td>
<td>With respect to a Seniors Housing Property, as defined in Part IIIB, Section 506.</td>
</tr>
<tr>
<td>Metropolitan Statistical Area (MSA)</td>
<td>A metropolitan statistical area’s geographic delineation as determined by the U.S. Census Bureau from time to time.</td>
</tr>
<tr>
<td>Mezzanine Financing&lt;br&gt;(03/31/14)</td>
<td>A form of subordinate debt financing provided to a direct or indirect owner of a Borrower that is secured by a pledge of the direct or indirect equity interest in the Borrower held by such owner, and not by a Lien on the Property, as further described in Part IIIC, Section 1001.</td>
</tr>
<tr>
<td>MH Community (or Manufactured Housing Community) (06/02/14)</td>
<td>As defined in Part IIIB, Section 601.</td>
</tr>
<tr>
<td>MH Community Mortgage Loan (or Manufactured Housing Mortgage Loan) (10/13/14)</td>
<td>With respect to a MH Community, as defined in Part IIIB, Section 601.</td>
</tr>
<tr>
<td>MH Community Score (or Manufactured Housing Community Score) (10/13/14)</td>
<td>With respect to a MH Community, as defined in Part IIIB, Section 601.</td>
</tr>
<tr>
<td>MH Site (or Manufactured Housing Site) (10/13/14)</td>
<td>With respect to a MH Community, as defined in Part IIIB, Section 601.</td>
</tr>
</tbody>
</table>
Micro Loan (06/02/14) A Small Mortgage Loan in an amount less than or equal to $750,000 that complies with the underwriting requirements of the Multifamily Underwriting Standards.

Military Housing Property (or Military Housing) (08/22/16) A multifamily rental Property in which 40% or greater of the units are occupied by individuals serving in, or employed by, the military, or that is located in an area where military and military related employment accounts for 40% or greater of the local employment base.

Minimum FICO Requirement (06/02/14) As defined in the Multifamily Underwriting Standards.

Minimum Good Faith Deposit (06/02/14) The amount required to be collected by the Lender in connection with the origination of a Mortgage Loan, as defined in Part IVA, Section 304.

Minimum 1% Prepayment Premium (07/10/17) The minimum Prepayment Premium equal to 1% of the Unpaid Principal Balance that must be paid by the Borrower prior to an open period when the Mortgage Loan may be prepaid with no Prepayment Premium, as required by the Loan Documents.

Minimum Origination Fee (06/02/14) The amount required to be charged by the Lender to the Borrower in connection with the origination and underwriting of a Mortgage Loan, as defined in Part IVA, Section 202.

Minimum Required Trade Information (05/21/18) The Mortgage Loan, Security, and Property information that must be disclosed to any potential Investor when rate locking a Mortgage Loan, using either:

(a) Form 4097.Fixed Rate – Multifamily Required Trade Information for Cash or MBS, for a fixed Rate Mortgage Loan; or

(b) Form 4097.ARM – Multifamily Required Trade Information for Cash or MBS, for an ARM Loan, SARM Loan, or Hybrid ARM Loan.

Moderate Rehabilitation Mortgage Loan (01/23/17) A Mortgage Loan secured by a Moderate Rehabilitation Property, as further described in Part IIIB, Chapter 3.

Moderate Rehabilitation Property (02/22/16) Any Property to which repairs, replacements, and improvements are planned or in progress at the time of underwriting, and which meet the requirements of
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td>Moderate Rehabilitation Supplemental Mortgage Loan (01/23/17)</td>
<td>As defined in Part IIIC, Section 201.</td>
</tr>
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<td>Modified Risk Loss Sharing (08/25/14)</td>
<td>As described in the Master Loss Sharing Agreement.</td>
</tr>
<tr>
<td>Monthly Remittance (06/02/14)</td>
<td>As defined in Part V, Section 209.</td>
</tr>
<tr>
<td>Moody’s (02/22/16)</td>
<td>Moody’s Investors Service, Inc., or its successor</td>
</tr>
<tr>
<td>Mortgage Backed Security (MBS) (06/02/14)</td>
<td>An investment security that represents an undivided beneficial interest in a pool of mortgage loans or Participation Interests in mortgage loans held in trust pursuant to the terms of a governing trust document.</td>
</tr>
<tr>
<td>Mortgage Loan (06/02/14)</td>
<td>The mortgage debt obligation that is evidenced, or when made will be evidenced, by the Loan Documents. The terms “mortgage” and “loan” (with or without capitalization) may also be used in this Guide and are intended to refer to the Mortgage Loan as the context requires.</td>
</tr>
<tr>
<td>Mortgage Loan Certificate (08/25/14)</td>
<td>As described in the Master Loss Sharing Agreement.</td>
</tr>
<tr>
<td>Mortgage Loan Delivery Package (06/02/14)</td>
<td>The Loan Documents and underwriting material required in connection with the Delivery of a Mortgage Loan, as described in Part IVA, Section 502.</td>
</tr>
<tr>
<td>Mortgage Loan Origination Date (06/02/14)</td>
<td>The date that the Lender funds a Mortgage Loan to the Borrower.</td>
</tr>
<tr>
<td>Mortgage Servicing Rights (MSR) (08/25/14)</td>
<td>As to any Lender or Servicer, the contractual or other rights to service an existing Mortgage Loan.</td>
</tr>
<tr>
<td>MSA (06/02/14)</td>
<td>Metropolitan Statistical Area</td>
</tr>
<tr>
<td>MSFMS (06/02/14)</td>
<td>The Multifamily Structured Facilities Management System that performs the collateral delivery and securitization process.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>------</td>
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</tr>
<tr>
<td>MSFMS Deal ID (06/02/14)</td>
<td>The number assigned by MSFMS at the time a Structured Transaction is registered.</td>
</tr>
<tr>
<td>MSR (08/25/14)</td>
<td>Mortgage Servicing Rights</td>
</tr>
<tr>
<td>MultiDocExpress™ (05/21/18)</td>
<td>A business-to-business electronic documentation delivery application for Fannie Mae, or any such successor system (including DocWay), and which is located at: <a href="https://home.fanniemae.com/docway/Login.jsp">https://home.fanniemae.com/docway/Login.jsp</a>.</td>
</tr>
<tr>
<td>Multifamily Affordable Housing Mortgage Loan (MAH Mortgage Loan) (06/02/14)</td>
<td>A Mortgage Loan that is secured by an MAH Property.</td>
</tr>
<tr>
<td>Multifamily Affordable Housing Property (MAH Property) (06/02/14)</td>
<td>As described in Part IIIB, Chapter 7.</td>
</tr>
<tr>
<td>Multifamily Asset Management Portal (MAMP) (08/24/15)</td>
<td>The site through which Lenders and Servicers electronically submit (i) Property inspections, operating statements and other asset management reports, (ii) data corrections related to loan level attributes or property level attributes, and (iii) requested modifications to Guide requirements related to property inspection and financial submissions, and which site is located at: <a href="https://www.fanniemae.com/multifamily/asset-management-portal">https://www.fanniemae.com/multifamily/asset-management-portal</a>, or <a href="https://hcdinfoexchange.fanniemae.com/Login.aspx?ReturnUrl=%2f">https://hcdinfoexchange.fanniemae.com/Login.aspx?ReturnUrl=%2f</a>.</td>
</tr>
<tr>
<td>Multifamily Committing and Delivery System (C&amp;D™) (08/25/14)</td>
<td>The electronic committing and delivery system used by Fannie Mae for issuing and confirming Commitments for the acquisition of Mortgage Loans, or any such successor system.</td>
</tr>
<tr>
<td>Multifamily Lender (08/25/14)</td>
<td>A Lender approved to deliver Mortgage Loans for purchase by Fannie Mae, but not designated as a DUS Lender by Fannie Mae.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td><strong>Multifamily Loan Agreement</strong> <em>(06/02/14)</em></td>
<td>An agreement evidencing the terms of a Mortgage Loan using the 6001 (series) form loan documents (or another form approved by Fannie Mae), as such agreement may be amended or restated from time to time.</td>
</tr>
<tr>
<td><strong>Multifamily Mortgage Loan Package Table of Contents</strong> <em>(06/02/14)</em></td>
<td>Form 6502 or another form of Table of Contents for a Mortgage Loan Delivery Package as approved by Fannie Mae.</td>
</tr>
<tr>
<td><strong>Multifamily Trading Desk</strong> <em>(02/22/16)</em></td>
<td>The Fannie Mae personnel responsible for publishing the Pricing Memo, and quoting interest rate pricing for a Mortgage Loan.</td>
</tr>
<tr>
<td><strong>Multifamily Underwriting Certificate</strong> <em>(06/02/14)</em></td>
<td>Individually and collectively, the Multifamily Underwriting Certificate (Form 6460.Borrower, Form 6460.Guarantor, Form 6460.IDOT.Borrower, Form 6460.IDOT.Guarantor or Form 6460.Key Principal), or another agreement approved by Fannie Mae that provides certain underwriting information relating to a Mortgage Loan.</td>
</tr>
<tr>
<td><strong>Multifamily Underwriting Standards</strong> <em>(07/15/16)</em></td>
<td>The Fannie Mae Form 4660 that contains the underwriting standards promulgated by Fannie Mae from time to time specifying minimum criteria for, among other things, LTV and Underwritten DSCR for different Asset Classes and/or Mortgage Loan executions.</td>
</tr>
<tr>
<td><strong>Multiple Asset Transaction (MATS)</strong> <em>(05/21/18)</em></td>
<td>A Structured Transaction, as further described in Part IIIC, Chapter 11.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National Flood Insurance Program (NFIP)</strong> <em>(06/02/14)</em></td>
<td>The program of flood insurance coverage and floodplain management administered under the National Flood Insurance Act and applicable Federal regulations promulgated in Title 44 of the Code of Federal Regulations, Subchapter B.</td>
</tr>
<tr>
<td><strong>NCF</strong> <em>(07/15/16)</em></td>
<td>Net Cash Flow</td>
</tr>
<tr>
<td><strong>NCUSIF</strong> <em>(06/02/14)</em></td>
<td>National Credit Union Share Insurance Fund administered by the National Credit Union Administration</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>------</td>
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</tr>
<tr>
<td>Near Stabilized Property (02/22/16)</td>
<td>A newly constructed or recently rehabilitated Property, with all construction or rehabilitation complete, which is expected to achieve Stabilized Residential Occupancy and the applicable required Underwritten Debt Service Coverage Ratio within 120 days after the Mortgage Loan Origination Date.</td>
</tr>
<tr>
<td>Negotiated Seller Number (06/02/14)</td>
<td>The number generated by Fannie Mae that identifies the Person that currently services a Structured Transaction.</td>
</tr>
<tr>
<td>Net Cash Flow (NCF) (07/10/17)</td>
<td>For any specified period (or if no period is specified, on an annual basis), the total of (i) Net Operating Income, minus (ii) the full amount underwritten for Capital Expenditures (Replacement Reserve), regardless of whether deposits have been or will be waived or reduced by the Lender, and as generally described in Part IIIA, Section 311, and as adjusted for the specific Asset Class, product feature, or execution in Part IIIB or Part IIIC.</td>
</tr>
<tr>
<td>Net Operating Income (NOI) (07/10/17)</td>
<td>For any specified period (or if no period is specified, on an annual basis), the total of (i) Effective Gross Income, minus (ii) operating expenses for the Property, plus (iii) the full amount underwritten for Capital Expenditures (Replacement Reserve), regardless of whether deposits have been or will be waived or reduced by the Lender, and as generally described in Part IIIA, Section 311, and as adjusted for the specific Asset Class, product feature, or execution in Part IIIB or Part IIIC.</td>
</tr>
<tr>
<td>Net Rental Income (NRI) (07/15/16)</td>
<td>For any specified period (or if no period is specified, on an annual basis), the net rental income for a Property calculated as generally described in Part IIIA, Section 311, and as adjusted for the specific Asset Class, product feature, or execution in Part IIIB or Part IIIC.</td>
</tr>
<tr>
<td>NFIP (06/02/14)</td>
<td>National Flood Insurance Program</td>
</tr>
<tr>
<td>NOI (12/31/12)</td>
<td>Net Operating Income</td>
</tr>
<tr>
<td>Nonpublic Personal Information (NPI) (07/10/17)</td>
<td>Personally identifiable financial information as defined by the Gramm-Leach-Bliley Act, 15 USC §6809, as amended.</td>
</tr>
<tr>
<td>Non-Contiguous Parcels (08/25/14)</td>
<td>Multiple parcels of land securing a Mortgage Loan that do not share common boundaries or that are separated by dedicated or private streets that are major arterials.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>Non-Controlling Conflict Mortgage Loan (08/25/14)</td>
<td>As described in Part II, Section 505.02.</td>
</tr>
<tr>
<td>Non-Coterminous Supplemental Mortgage Loan (10/13/14)</td>
<td>A Supplemental Mortgage Loan, that does not have the same Maturity Date as the Senior Mortgage Loan as further described in Part IIIC, Section 202.</td>
</tr>
<tr>
<td>Non-Employees (06/02/14)</td>
<td>Persons hired by the Lender on a contract basis to perform functions that an employee would typically perform.</td>
</tr>
<tr>
<td>Non-Fannie Mae Subordinate Loan (10/13/14)</td>
<td>A Subordinate Loan that is not owned by Fannie Mae, but where Fannie Mae owns the Senior Mortgage Loan.</td>
</tr>
<tr>
<td>Non-Local Borrower (06/02/14)</td>
<td>With respect to Small Mortgage Loans, as defined in Part IIIB, Section 906.</td>
</tr>
<tr>
<td>Non-Performing Mortgage Loan (06/02/14)</td>
<td>A Mortgage Loan that is subject to an uncured default, as defined in Part V, Section 703.</td>
</tr>
<tr>
<td>Non-Recourse Guaranty or Guaranty of Non-Recourse Obligations (06/02/14)</td>
<td>A guaranty executed by a Key Principal on Form 4501 (series) or Form 6015 (series), as applicable (or any other non-recourse guaranty approved by Fannie Mae), as any such guaranty may be amended or restated from time to time.</td>
</tr>
<tr>
<td>Non-Restricted Functions (08/25/14)</td>
<td>The functions that may be performed by Non-Employees of the Lender or another Outside Party as identified in the Guide.</td>
</tr>
<tr>
<td>Note (06/02/14)</td>
<td>An instrument evidencing a Mortgage Loan obligation, including Form 6010 (series), any other Fannie Mae standard form multifamily note (or any other note approved by Fannie Mae), and all applicable addenda, schedules, and exhibits thereto, as any such note may be amended or restated from time to time.</td>
</tr>
<tr>
<td>NPI (07/10/17)</td>
<td>Nonpublic Personal Information</td>
</tr>
<tr>
<td>NRI (06/02/14)</td>
<td>Net Rental Income</td>
</tr>
<tr>
<td>NT Guide (06/02/14)</td>
<td>The Fannie Mae Negotiated Transactions Guide.</td>
</tr>
<tr>
<td>O&amp;M Plan (06/02/14)</td>
<td>Operations and Maintenance Plan</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Occupancy Requirements</strong> (06/02/14)</td>
<td>As set forth in Part IIIB, Section 903.</td>
</tr>
<tr>
<td><strong>OFAC (06/02/14)</strong></td>
<td>U.S. Treasury Department, Office of Foreign Assets Control and its successors and assigns</td>
</tr>
<tr>
<td><strong>Operational Liquidity</strong> (08/25/14)</td>
<td>As described in Part II, Section 403.02.</td>
</tr>
<tr>
<td><strong>Operational Liquidity Requirement</strong> (08/25/14)</td>
<td>As to any Lender, the amount of Operational Liquidity that the Lender must maintain from time to time, as calculated pursuant to Section II.A of the DUS Capital Calculation Requirements (Form 4165), and adjusted as required by Section 604 of the Master Loss Sharing Agreement.</td>
</tr>
<tr>
<td><strong>Operations and Maintenance Plan (O&amp;M Plan) (06/02/14)</strong></td>
<td>A written plan, document, or agreement containing ongoing operating, maintenance, or monitoring actions for the Property or Improvements thereon.</td>
</tr>
<tr>
<td><strong>Origination Fee (06/02/14)</strong></td>
<td>A fee charged by the Lender to the Borrower for underwriting and originating the Mortgage Loan, as defined in Part IVA, Section 202.</td>
</tr>
<tr>
<td><strong>Outside Party (07/10/17)</strong></td>
<td>Any Person hired by the Lender to perform professional services (e.g., appraisers, inspectors, structural engineers, or environmental engineers).</td>
</tr>
<tr>
<td><strong>Overhead Units</strong></td>
<td>Non-revenue producing units such as management units, employee occupied units, maintenance units, model units, or any other non-revenue producing unit.</td>
</tr>
<tr>
<td><strong>P&amp;I (07/15/16)</strong></td>
<td>Principal and Interest</td>
</tr>
<tr>
<td><strong>P&amp;I Custodial Account</strong></td>
<td>A Custodial Account for P&amp;I deposits.</td>
</tr>
<tr>
<td><strong>Part III (06/02/14)</strong></td>
<td>Collectively, Part IIIA – Base Underwriting Requirements, Part IIIB – Underwriting for Special Asset Classes, and Part IIIC – Underwriting for Special Product Features or Executions.</td>
</tr>
<tr>
<td><strong>Participation Interest</strong> (10/13/14)</td>
<td>An undivided interest in a Mortgage Loan, specified in the applicable participation certificate that is evidence of such interest. A “participation interest” or “participation interest in...</td>
</tr>
</tbody>
</table>
a Mortgage Loan” consists of the specified percentage of the principal (and a like percentage of all rights and benefits of the seller of such Participation Interest in any collateral or guaranty securing the Mortgage Loan), together with a specified yield on the Participation Interest.

Pass-Through Rate (06/02/14) The Gross Note Rate of the underlying Mortgage Loan less the Guaranty Fee less the Servicing Fee.

Payment Default (06/02/14) The failure of a Borrower to pay when due and in full any payment required with respect to the related Mortgage Loan, including, but not limited to, principal, interest, late charges, default interest, fees, prepayment premium, escrows, or other collateral accounts for taxes, insurance premiums, and assessments, other collateral accounts and the Replacement Reserve.

Payment Guaranty (06/02/14) A guaranty executed by a Key Principal on Form 4502 (series) or Form 6020 (series), as applicable (or any other recourse guaranty approved by Fannie Mae), as any such guaranty may be amended or restated from time to time.

PCA (10/13/14) Property Condition Assessment

Performance Default (06/02/14) The failure of a Borrower to perform any promise or covenant within any applicable grace periods under the related Mortgage Loan other than a failure that constitutes a Payment Default.

Person (06/02/14) Any legal person, including any individual, an estate, a trust, a corporation, a partnership, a limited liability company, a financial institution, joint venture, association, or any other organization or entity (whether governmental or private).

Personal Property (06/02/14) Various items of furniture, fixtures, equipment, and other tangible personal property located on or used in connection with the Property.

PFP MBS (06/02/14) An MBS that is backed by a PFP Mortgage Loan.

PFP Mortgage Loan (07/10/17) A Mortgage Loan that was originally purchased by Fannie Mae as a Cash Mortgage Loan or is otherwise held by Fannie Mae in its portfolio, but which Fannie Mae thereafter securitized by the issuance of an MBS backed by such Mortgage Loan.

Phase I ESA (06/02/14) An environmental report and site assessment performed according to the process described in ASTM E 1527-13 (or, if
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase II ESA (06/02/14)</td>
<td>An investigation performed according to ASTM E 1903-11, Standard Practice for Environmental Site Assessments: Phase II Environmental Site Assessment Process, as such may be amended or restated from time to time, or any other investigation performed, other than a Phase I ESA, that may include analyzing soil, ground water, or building materials for contaminants, including any report summarizing the conclusions of the assessment.</td>
</tr>
<tr>
<td>Physical Needs Assessment (PNA) (10/13/14)</td>
<td>See Property Condition Assessment.</td>
</tr>
<tr>
<td>Plan Number (05/21/18)</td>
<td>The number generated by Fannie Mae that identifies the set of applicable loan characteristics for an Adjustable Rate Mortgage Loan, Structured ARM Loan, or Hybrid ARM Loan.</td>
</tr>
<tr>
<td>PML Study (06/02/14)</td>
<td>Probable Maximum Loss Study, or seismic risk assessment, as described in Part IIIA, Section 321.</td>
</tr>
<tr>
<td>PNA (06/02/14)</td>
<td>Physical Needs Assessment</td>
</tr>
<tr>
<td>Portfolio Mortgage Loan (06/02/14)</td>
<td>A Mortgage Loan that has been purchased by Fannie Mae and is held by Fannie Mae as of a certain date regardless of whether such Mortgage Loan is held by Fannie Mae as a Cash Mortgage Loan or an MBS Mortgage Loan.</td>
</tr>
<tr>
<td>Pre-Existing Loan (10/13/14)</td>
<td>Collectively, all multifamily residential real estate loans secured by Liens against the Property having higher priority than the Lien securing the Subordinate Loan as further described in Part IIIC, Section 201.</td>
</tr>
<tr>
<td>Pre-Existing Mortgage Loan (10/13/14)</td>
<td>All Pre-Existing Loans purchased or intended to be purchased by Fannie Mae, as further described in Part IIIC, Section 201.</td>
</tr>
<tr>
<td>Preferred Equity (02/04/19)</td>
<td>A form of direct or indirect equity ownership interest in, economic interests in, or rights with respect to, an entity that provide the equity owner preferred dividend, distribution, payment, or return treatment relative to other equity owners, which may be in the form of Hard Preferred Equity or Soft</td>
</tr>
</tbody>
</table>
Preferred Equity, and as further described in Part IIIC, Section 1002.

**Preliminary ERL Underwriting (06/02/14)**

Used for ERL Mortgage Loans, as described in Part IVB, Chapter 1.

**Prepayment**

With regard to any Mortgage Loan, any unscheduled payment of principal on a Mortgage Loan, whether made voluntarily by the Borrower or otherwise.

**Prepayment Premium (06/02/14)**

With respect to a Mortgage Loan, any amount required to be paid by the Borrower upon a prepayment of the Mortgage Loan in addition to the outstanding principal balance and accrued interest pursuant to the related Loan Documents.

**Prepayment Premium Option (06/02/14)**

One of the Form 6104 schedules to the Loan Agreement as described in the Loan Documentation Requirements, applicable to the Mortgage Loan.

**Prepayment Premium Period End Date (05/21/18)**

The date which is:

(a) For any Mortgage Loan subject to yield maintenance, the Yield Maintenance Period End Date;

(b) For any Mortgage Loan subject to Defeasance, the Defeasance period end date (as set forth in the Loan Documents); and

(c) For any Mortgage Loan subject to a graduated Prepayment Premium:

(1) the end of the 5th Loan Year for a 5-year Mortgage Loan;

(2) the end of the 5th Loan Year for a 7-year Mortgage Loan; or

(3) the end of the 7th Loan Year for a 10-year Mortgage Loan.

**Pre-Review (06/02/14)**

The requirement that the Lender obtain credit approval from Fannie Mae for a Mortgage Loan pursuant to the provisions of Part IIIA, Chapter 2.

**Pre-Review Mortgage Loan (06/02/14)**

A Mortgage Loan for which credit approval is not delegated to the Lender pursuant to this Guide and that is subject to the provisions of Part IIIA, Chapter 2.
**Pre-Stabilized Property**
(01/23/17)

A Property that, within the 12 months prior to the Mortgage Loan Origination Date, was either newly constructed or substantially rehabilitated, and meets all of the following conditions:

(a) the Property is in its initial lease-up stage and has not achieved Stabilized Residential Occupancy for at least 3 consecutive months;

(b) all construction or rehabilitation work is complete (immaterial uncompleted work may be acceptable provided it does not impact the marketability of the units, nor create any Lien that would have priority over the Security Instrument securing the Mortgage Loan being purchased by Fannie Mae); and;

(c) all required certificates of occupancy, or an equivalent certification of completion, will have been issued on, or prior to, the Mortgage Loan Origination Date.

**PRF (06/02/14)**

Principal Reserve Fund

**Pricing and Underwriting Tier (06/02/14)**

As applicable, Tier 1, Tier 2, Tier 3, or Tier 4, or such other pricing and underwriting tiers as Fannie Mae shall establish from time to time in its sole and absolute discretion, as set forth in this Guide or the Multifamily Underwriting Standards.

**Pricing Memo (06/02/14)**

As applicable, the DUS Pricing Memo or non-DUS Pricing Memo in effect from time to time.

**Primary Risk Mortgage Loan (06/02/14)**

A Mortgage Loan for which Fannie Mae bears all losses or for which the Lender and Fannie Mae share losses.

**Principal (or Principals) (06/02/14)**

Any Person that owns or controls the following interests in the Borrower:

<table>
<thead>
<tr>
<th>Type of Borrower Entity</th>
<th>Ownership Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Partnership or Joint Venture</td>
<td>Any general partner or joint venturer.</td>
</tr>
<tr>
<td>Limited Partnership</td>
<td>All general partners and any limited partner who owns a 25% or more interest in the partnership.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>Privately-Held Corporation</td>
<td>A stockholder who owns 25% or more of the voting stock of the corporation.</td>
</tr>
<tr>
<td>Limited Liability Company</td>
<td>All non-member managers, member-managers, and any member who owns a 25% or more membership interest.</td>
</tr>
<tr>
<td>Trust (other than a Land Trust)</td>
<td>The grantor (if the trust is a revocable trust or if the grantor or settlor has retained powers), any Person who has a 25% or more beneficial interest in the trust, and any trustee.</td>
</tr>
<tr>
<td>Land Trust</td>
<td>A trust beneficiary who owns a 25% or more beneficial interest in the land trust.</td>
</tr>
<tr>
<td>Principal and Interest (07/15/16)</td>
<td>The required payments of principal and interest payable on a Mortgage Loan under the terms of the Loan Documents.</td>
</tr>
<tr>
<td>Principal Reserve Fund (PRF) (06/02/14)</td>
<td>With respect to Bond Credit Enhancements, see Part XIV of the DUS Guide.</td>
</tr>
<tr>
<td>Prohibited Conflict Mortgage Loan (08/25/14)</td>
<td>As described in Part II, Section 505.02.</td>
</tr>
<tr>
<td>Property (06/02/14)</td>
<td>A multifamily residential property that consists of 5 or more dwelling units. The property includes the land (or, where applicable Leasehold interest in land) and the Improvements, together with personal property (as defined in the UCC) that secure the Mortgage Loan.</td>
</tr>
<tr>
<td>Property Condition Assessment (PCA) (or Physical Needs Assessment) (10/13/14)</td>
<td>An assessment of the current physical condition and historical operation of the Property as further described in Part IIIA, Section 316.</td>
</tr>
<tr>
<td>Property Insurance (06/02/14)</td>
<td>Insurance coverage that compensates for physical damage to the Property by fire, wind, or other natural disasters.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>Prospectus Supplement (06/02/14)</td>
<td>Part of the disclosure package published by Fannie Mae in connection with the issuance of an MBS, as described in IVA, Section 604.</td>
</tr>
<tr>
<td>Prospectus Supplement Narrative (06/02/14)</td>
<td>Part of the disclosure package published by Fannie Mae in connection with the issuance of an MBS, as described in IVA, Section 604.</td>
</tr>
<tr>
<td>PSEP (06/02/14)</td>
<td>Post Submission Exception Process.</td>
</tr>
<tr>
<td>Publicly-Held Corporation (06/02/14)</td>
<td>A corporation, the outstanding voting stock of which is registered under Section 12(b) or 12(g) of the Securities and Exchange Act of 1934, as amended or superseded.</td>
</tr>
<tr>
<td>Publicly-Held Trust (06/02/14)</td>
<td>A real estate investment trust, the outstanding voting shares or beneficial interests of which are registered under Section 12(b) or 12(g) of the Securities Exchange Act of 1934, as amended or superseded.</td>
</tr>
<tr>
<td>Purchase by Fannie Mae (or Purchased by Fannie Mae) (06/02/14)</td>
<td>With reference to a Mortgage Loan or Participation Interest, the acquisition by Fannie Mae of an ownership interest, including an equitable ownership interest, in such Mortgage Loan or Participation Interest.</td>
</tr>
<tr>
<td>Qualified Occupant (06/02/14)</td>
<td>Any party occupying a dwelling unit in a Property in full compliance with a lease.</td>
</tr>
<tr>
<td>Rate Lock (06/02/14)</td>
<td>A legally binding agreement between the Lender and the Investor containing the terms of the Lender-Arranged Sale or Multifamily Trading Desk Trade of the Mortgage Loan and other terms and conditions relating to the underlying MBS, if applicable, which may be documented via a recorded telephone conversation, as such Rate Lock may be amended by the Lender and the Investor from time to time.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>Rate Lock Amount (06/02/14)</td>
<td>The anticipated Mortgage Loan amount set forth in the Rate Lock.</td>
</tr>
<tr>
<td>Rate Lock Expiration Date (06/02/14)</td>
<td>The date upon which a Rate Lock expires.</td>
</tr>
<tr>
<td>Rate Lock Extension Fee (06/02/14)</td>
<td>The fee required to extend a Rate Lock, as defined in Part IVA, Section 304.</td>
</tr>
<tr>
<td>Rate Lock Period (06/02/14)</td>
<td>For a Rate Lock, the time frame from and after the execution of the Rate Lock through and including the Rate Lock Expiration Date.</td>
</tr>
<tr>
<td>Rebate Analyst (06/02/14)</td>
<td>With respect to Bond Credit Enhancements, see Part XIV of the DUS Guide.</td>
</tr>
<tr>
<td>Recently Completed Property</td>
<td>A Property that has been newly constructed or substantially rehabilitated and meets the following conditions on the date the Borrower submits an application to the Lender:</td>
</tr>
<tr>
<td></td>
<td>(a) all construction or rehabilitation work must be complete (except for minor weather sensitive items or a minor punch list);</td>
</tr>
<tr>
<td></td>
<td>(b) all required certificates of occupancy, or an equivalent certification of completion, must have been issued; and</td>
</tr>
<tr>
<td></td>
<td>(c) no more than 12 months may have elapsed since the later of the date of substantial completion/rehabilitation of the Property or the date the last certificate of occupancy, or equivalent certification of completion, was issued.</td>
</tr>
<tr>
<td>Recognized Environmental Condition (06/02/14)</td>
<td>As such term is defined by ASTM E 1527-13 (or by ASTM E1527-05, if using ASTM E1527-05 as agreed to in writing by Fannie Mae), Standard Practice for Environmental Site Assessments: Phase I Environmental Site Assessment Process, as such may be amended or restated from time to time. The definition under ASTM E 1527-13 as of publication of this definition is:</td>
</tr>
<tr>
<td></td>
<td>The presence or likely presence of any hazardous substances or petroleum products in, on, or at a property: (1) due to release to the environment; (2) under conditions indicative of a release to the environment; or (3) under conditions that pose a material threat of a future release to the environment.</td>
</tr>
</tbody>
</table>

The presence or likely presence of any hazardous substances or petroleum products in, on, or at a property: (1) due to release to the environment; (2) under conditions indicative of a release to the environment; or (3) under conditions that pose a material threat of a future release to the environment.
**minimis conditions are not recognized environmental conditions.**

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Refi Plus Mortgage Loans</strong>&lt;br&gt;(06/02/14)</td>
<td>The Refi Plus Refinance Mortgage Loan refinancing a Portfolio Mortgage Loan, and the Supplemental Mortgage Loan issued in connection with the Refi Plus Refinance Mortgage Loan, as described in Part IIIC, Section 305.</td>
</tr>
<tr>
<td><strong>Refi Plus Refinance Mortgage Loan</strong>&lt;br&gt;(06/02/14)</td>
<td>The Mortgage Loan refinancing a Portfolio Mortgage Loan utilizing the underwriting requirements, as described in Part IIIC, Section 305.</td>
</tr>
<tr>
<td><strong>Refinance Interest Rate</strong>&lt;br&gt;(07/15/16)</td>
<td>The highest possible interest rate on the Unpaid Principal Balance of the Mortgage Loan that can be supported by the Property’s expected Net Cash Flow when the Portfolio Mortgage Loan is refinanced at the Maturity Date.</td>
</tr>
<tr>
<td><strong>Refinance Mortgage Loan</strong>&lt;br&gt;(06/02/14)</td>
<td>Any of a Choice Refinance Loan, a Refi Plus Mortgage Loan, or an In Place Loan.</td>
</tr>
<tr>
<td><strong>Rehabilitation Reserve Account</strong>&lt;br&gt;(02/22/16)</td>
<td>The Custodial Account established by the Lender and funded by deposits from the Borrower pursuant to the Rehabilitation Reserve Agreement to fund the Rehabilitation Work.</td>
</tr>
</tbody>
</table>
| **Rehabilitation Reserve Agreement**<br>(07/10/17) | Any of the following, together with any amendments or restatements from time to time, that evidences (i) the Borrower’s agreement to undertake identified Rehabilitation Work, (ii) the terms for funding such Rehabilitation Work, and (iii) the disbursement of funds from the Rehabilitation Reserve Account:

(a) for a Mortgage Loan originated using the 6000 Series Loan Documents, either the (i) Modifications to Multifamily Loan and Security Agreement (Rehabilitation Reserve – Moderate Rehabilitation) (Form 6222.Mod), or (ii) the Modifications to Multifamily Loan and Security Agreement (Rehabilitation Reserve – Substantial Rehabilitation) (Form 6222.Sub);

(b) for a Mortgage Loan originated using the 4000 Series Loan Documents, the Rehabilitation Reserve and Security Agreement (Form 4523); or

(c) another agreement approved by Fannie Mae. |
**Rehabilitation Work (02/22/16)**
The aggregate repairs, replacements, or improvements (including all Completion/Repairs) required to be performed at the Property and completed within a specified time period after the Mortgage Loan Origination Date in connection with a Moderate Rehabilitation Mortgage Loan.

**Reimbursement Agreement (06/02/14)**
With respect to Bond Credit Enhancements, see Part XIV of the DUS Guide.

**Remarketing Agent (06/02/14)**
With respect to Bond Credit Enhancements, see Part XIV of the DUS Guide.

**Remedial Work (06/02/14)**
Any investigation, site monitoring, containment, abatement, clean-up, removal, restoration or other remedial work in connection with any Significant Mold, Environmental Laws, or order of or agreement with any governmental authority that has or acquires jurisdiction over a Property, or the use, operation or improvement of a Property under any Environmental Law or as recommended in writing by an environmental professional, certified industrial hygienist or person with similar qualifications with respect to Significant Mold.

**Remediation Plan (06/02/14)**
A written plan meeting the requirements set forth in Part IIIA, Section 320 and which is approved by the Lender in writing, as it may be amended or restated from time to time.

**Remittance Date (06/02/14)**
The date the Servicer is required to make its Monthly Remittance to Fannie Mae for the Mortgage Loan.

**REO (06/02/14)**
A Property or, with respect to a Participation Interest, an interest in a Property as evidenced by the related Participation Certificate, acquired by Fannie Mae or, if in an MBS, on behalf of the MBS Trust, through a Foreclosure Event by which title to a Property or interests in that Property may be transferred to or for the benefit of Fannie Mae or the MBS Trust.

**Replacement Reserve (02/22/16)**
The Custodial Account established by the Lender and funded by deposits from the Borrower over the term of the Mortgage Loan to fund the replacement of capital items at the Property.

**Replacement Reserve Agreement (07/10/17)**
Any of the following, together with any amendments or restatements from time to time, that evidences (i) the Borrower’s agreement to undertake identified replacement of capital items and required maintenance, (ii) the terms for
funding such replacement of capital items and maintenance, and (iii) the disbursement of funds from the Replacement Reserve:

(a) a Replacement Reserve and Security Agreement (Form 4506);

(b) the applicable parts of the Multifamily Loan Agreement (Form 6001 series), including the Required Replacement Schedule to the Multifamily Loan Agreement; or

(c) another agreement approved by Fannie Mae.

**Request for Approval of Multifamily Servicing Transfer (08/25/14)**

The Fannie Mae Form 630 that is required to be submitted to obtain Fannie Mae's approval of a Lender-initiated servicing transfer of a Mortgage Loan.

**Required Practices (06/02/14)**

The required practices for committing and delivering Mortgage Loans for purchase by Fannie Mae as defined in Part IVA, Section 302.

**Reserve Collateral Delivery Date (08/25/14)**

As to any Lender, the date on which the Restricted Liquidity is due.

**Reserve Investment Guidelines (08/25/14)**

The Lender Reserve guidelines described in Part II, Section 403.05.

**Reserve Permitted Investments (08/25/14)**

Any of the asset types described in Part II, Section 403.

**Reserve Valuation Date (08/25/14)**

Any Reserve Collateral Delivery Date and the fifteenth (15th) day of each month (or if any such day is not a Business Day, the next succeeding Business Day).

**Reset Rate (06/02/14)**

With respect to Bond Credit Enhancements, see Part XIV of the DUS Guide.

**Residential Occupancy Requirements (06/02/14)**

As described in Part IIIA, Section 313.

**Restabilization Reserve (06/02/14)**

As described in Part IIIB, Section 707.

**Restricted Functions (08/25/14)**

Those lending or servicing functions of the Lender that must be performed by employees of the Lender, as identified in the Guide.
| **Restricted Liquidity**  (06/02/14) | With respect to any Mortgage Loan, the amount required to be held by the Lender as a reserve against the Lender’s Obligations (as defined in the Restricted Liquidity Reserve Agreement) as more particularly set forth in the Restricted Liquidity Reserve Agreement or this Guide. |
| **Restricted Liquidity Account**  (08/25/14) | A Lender account maintained for Fannie Mae and the Lender by the Collateral Custodian in which the Lender’s Restricted Liquidity is held. |
| **Restricted Liquidity Floor**  (08/24/15) | For any Lender, the minimum amount of Restricted Liquidity for the Lender’s aggregate Mortgage Loan portfolio to be held in the Restricted Liquidity Account, as set forth in Part II, Section 403. |
| **Restricted Liquidity Requirement**  (06/02/14) | The amount to be held in the Restricted Liquidity Reserve as set forth in Part II, Section 403. |
| **Restricted Liquidity Reserve**  (06/02/14) | With respect to any Liquidity Reserve Mortgage Loan (as defined in the Restricted Liquidity Reserve Agreement), the Restricted Liquidity Requirement required to be held by the Lender as set forth in Part II, Section 403. |
| **Restricted Ownership Interest**  (06/02/14) | with respect to any entity:  
  (a) if such entity is a general partnership or a joint venture,  
      50% or more of all general partnership or joint venture interests in such entity;  
  (b) if such entity is a limited partnership:  
      (1) the interest of any general partner; or  
      (2) 50% or more of all limited partnership interests in such entity;  
  (c) if such entity is a limited liability company or a limited liability partnership:  
      (1) the interest of any non-member manager or managing member; or  
      (2) 50% or more of all membership or other ownership interests in such entity;  
  (d) if such entity is a corporation (other than a Publicly-Held Corporation) with only one class of voting stock, 50% or more of voting stock in such corporation; |
(e) if such entity is a corporation (other than a Publicly-Held Corporation) with more than one class of voting stock, the amount of shares of voting stock sufficient to have the power to elect the majority of directors of such corporation; or

(f) if such entity is a trust (other than a land trust or a Publicly-Held Trust), the power to Control such trust vested in the trustee of such trust or the ability to remove, appoint or substitute the trustee of such trust (unless the trustee of such trust after such removal, appointment or substitution is a trustee identified in the trust agreement approved by the Lender).

Retained Portion (06/02/14) That portion of the Minimum Origination Fee that must be retained by the Lender, as further described in Part IVA, Section 202.

Risk-Based Restricted Liquidity Amount (06/02/14) The amount set forth in Part II, Section 403.

Rollover Date (06/02/14) The date that an existing DMBS matures and a new DMBS is delivered for the purpose of continued funding of the same Mortgage Loan, which date must be a Business Day.

S

S&P (02/22/16) Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., or its successor

Same Month Pooling (06/02/14) A delivery option that permits Mortgage Loans to be pooled, and an MBS backed by such pool, to be issued in the same month in which the Mortgage Loan Origination Date occurs.

SAR (03/30/15) Suspicious Activity Report

SARM Loan (06/02/14) Structured ARM Loan

Schedule of Loan Information (06/02/14) Part of the disclosure package published by Fannie Mae in connection with the issuance of an MBS, as described in Part IVA, Section 604.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td><strong>Schedule of Pool and Loan Information (06/02/14)</strong></td>
<td>Part of the disclosure package published by Fannie Mae in connection with the issuance of an MBS, as described in Part IVA, Section 604.</td>
</tr>
<tr>
<td><strong>Scheduled Payments (06/02/14)</strong></td>
<td>With respect to Bond Credit Enhancements, see Part XIV of the DUS Guide.</td>
</tr>
<tr>
<td><strong>Secondary Risk Mortgage Loan (06/02/14)</strong></td>
<td>A Mortgage Loan with respect to which the Lender bears all losses until the Lender’s recourse obligations are exhausted.</td>
</tr>
<tr>
<td><strong>SCP List (03/30/15)</strong></td>
<td>Federal Housing Finance Agency’s (FHFA’s) Suspended Counterparty Program list, which can be found at: <a href="http://www.fhfa.gov/Default.aspx?Page=424">http://www.fhfa.gov/Default.aspx?Page=424</a>.</td>
</tr>
<tr>
<td><strong>Securitized Mortgage Loan (06/02/14)</strong></td>
<td>A Mortgage Loan that backs an MBS, PFP MBS, DMBS, or REMIC.</td>
</tr>
<tr>
<td><strong>Security (06/02/14)</strong></td>
<td>Security has the meaning set forth in Section 2(1) of the Securities Act of 1933, as amended or superseded, which shall include an MBS, PFP MBS, DMBS, or REMIC.</td>
</tr>
<tr>
<td><strong>Security Balance (06/02/14)</strong></td>
<td>With respect to each MBS Pool, the Issue Date Principal Balance less any MBS principal distribution amounts included in previous MBS monthly remittances.</td>
</tr>
<tr>
<td><strong>Security Instrument (03/30/15)</strong></td>
<td>Any instrument creating a lien or encumbrance on 1 or more Properties and securing the obligations under the Loan Documents and as evidenced by the Note, which instrument may be on:</td>
</tr>
<tr>
<td></td>
<td>(a) Form 4000 (series);</td>
</tr>
<tr>
<td></td>
<td>(b) Form 6025 (series); or</td>
</tr>
<tr>
<td></td>
<td>(c) another form of instrument approved by Fannie Mae; including all applicable Exhibits, Schedules, and/or Riders attached thereto, as any such instrument may be amended or restated from time to time.</td>
</tr>
<tr>
<td><strong>Security Trust Indenture (06/02/14)</strong></td>
<td>An agreement that sets forth the terms relating to an issuance of a Security, the loans or participation interests in the pool, and payment terms on the Security.</td>
</tr>
</tbody>
</table>
| **Senior Loan (10/13/14)**                                           | A multifamily residential real estate loan secured by a Lien against the Property having a higher priority than any other
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Senior Mortgage Loan</strong></td>
<td>A Senior Loan purchased or intended to be purchased by Fannie Mae, as further described in Part IIIC, Section 201.</td>
</tr>
</tbody>
</table>
| **Seniors Housing Expansion/Conversion Request**                    | An asset management request from the Borrower under a Seniors Housing Mortgage Loan to alter the Seniors Housing Property beyond what is expressly permitted in the Loan Documents by:  
(a) constructing additional units;  
(b) renovating or expanding; or  
(c) changing the current mix of unit types (e.g., Independent Living, Assisted Living, or Alzheimer’s/Dementia Care). |
| **Seniors Housing Major Renovation**                               | Any physical improvement at a Seniors Housing Property costing in excess of (i) $20,000/unit, or (ii) $3 million in total project costs.      |
| **Seniors Housing Minor Renovation**                               | Any physical improvement at a Seniors Housing Property that is not a Seniors Housing Major Renovation, but which increases the number of units, or converts one type of unit (e.g., Independent Living, Assisted Living, or Alzheimer’s/Dementia Care) into another, unless expressly permitted by the Loan Documents. |
| **Seniors Housing Mortgage Loan**                                  | A Mortgage Loan secured by a Seniors Housing Property.                                                                                   |
| **Seniors Housing Property (or Seniors Housing)**                  | See Part IIIB, Chapter 5.                                                                                                               |
| **Seniors Housing Operator**                                       | Any operator or manager of a Seniors Housing Property.                                                                                   |
| **Servicer**                                                       | The primary Person responsible for servicing the Mortgage Loan, whether such party is the originator of the Mortgage Loan, the selling Lender, or a third party servicer. |
| **Servicer Number**                                                | A number assigned by Fannie Mae to a Servicer.                                                                                           |
| **Servicing Advance**                                              | All amounts required to be paid when due (and prior to the imposition of any penalties or charges), if not paid by the Borrower, for (a) all taxes and assessments against each Property. |
Property, (b) all insurance premiums for insurance for each Property to insurance carrier(s) acceptable to Fannie Mae, in accordance with this Guide, and (c) any other payment, as determined by Fannie Mae, necessary to preserve and protect the Property or to exercise any legal or equitable remedies (other than foreclosure) against the Borrower or the Property (including attorney, appraisal, or other professional fees) or any other obligations relating to the Property as set forth in the Loan Documents. After a Date of Default with respect to any Mortgage Loan, the Lender remains obligated to pay when due (and prior to the imposition of any penalties or charges) the amounts set forth in the preceding sentence; provided, however, the Lender shall not be required to make Servicing Advances to fund escrows or custodial accounts for taxes, assessments, and insurance premiums or to make payments to the accounts established for such Mortgage Loan; provided, further, however, that the Lender must apply any partial payments (including any Net Cash Flow from the Property that, under applicable state law, is then available for use by Fannie Mae) in the manner specified in the Loan Documents and this Guide.

**Servicing Fee (06/02/14)**
A fee that a Servicer receives for the collection of payments and management of operational procedures related to a Mortgage Loan.

**Servicing File (06/02/14)**
A file, or set of files, for each Mortgage Loan serviced by the Lender.

**Servicing Fee Rate (03/30/15)**
The rate of the Servicing Fee for the Mortgage Loan, expressed as an annualized percentage.

**Servicing Strip (08/25/14)**
As described in Part II, Section 512.

**Servicing Transfer Memo (06/02/14)**
Form 4809 or another document approved by Fannie Mae that contains the data and documentation needed to engage counsel and commence foreclosure proceedings.

**Settlement Date (or Book-Entry Date) (06/02/14)**
The calendar date a Security is delivered by Fannie Mae via the Federal Reserve book-entry system to the applicable Investor’s designated book-entry account at a depository institution. The Book-Entry Date must be a Business Day of the calendar month in which the Issue Date of the Security occurs.
SFHA (06/02/14) Special Flood Hazard Area

Significant Mold (06/02/14) Any mold, fungus, bacterial, viral, or microbial matter or pathogenic organisms at, in or about the Property of a type or quantity that:

(a) results in, or should reasonably result in, Remedial Work or a significant risk to human health or the environment as determined by a written analysis prepared by an environmental professional, certified industrial hygienist or person with similar qualifications reasonably acceptable to the Lender;

(b) is required or recommended to be addressed pursuant to Environmental Law, or written recommendation of an environmental professional, certified industrial hygienist or person with similar qualifications; or

(c) would materially and negatively impact the value of the Property.

Single Appraisal Approach (08/25/14) As described in Section 6.03 of the Master Loss Sharing Agreement.

Single Asset Substitution (06/02/14) The substitution of one Mortgaged Property for another as security for a Mortgage Loan, as further described in Part IIIC, Chapter 8.

Skilled Nursing (10/13/14) With respect to a Seniors Housing Property, as defined in Part IIIB, Section 502.

Skilled Nursing Facilities (10/13/14) With respect to a Seniors Housing Property, as defined in Part IIIB, Section 502.

Small Mortgage Loan (06/02/14) As described in Part IIIB, Chapter 9.

SNDA (06/02/14) Subordination, Non-Disturbance and Attornment Agreement

Soft Financing (06/02/14) Subordinate debt on a MAH Property as defined in Part IIIB, Section 705.

Soft Preferred Equity (02/04/19) A form of Preferred Equity in which the preferred payments or returns to the holder are only required to the extent cash flow from the Property is sufficient to make the payments or returns after satisfying all payment, reserve, escrow, and funding obligations under the Loan Documents and all
operating expenses of the Property, as further described in Part IIIC, Section 1002.

**Special Asset Management (SAM)** (08/25/14)

The business unit within Fannie Mae’s Multifamily Mortgage Business that is responsible for performing the work of the Special Servicer for Fannie Mae.

**Special Disclosure** (06/02/14)

See Additional Disclosure.

**Special Disclosure Guidance** (06/02/14)

See Additional Disclosure Guidance.

**Special Flood Hazard Area** (06/02/14)

Areas designated as Zone A or Zone V by FEMA.

**Special Servicer** (06/02/14)

A servicer (which may be Fannie Mae, the Servicer, or a third-party special servicer contracted by Fannie Mae to provide such services) responsible for implementing the loss mitigation actions for a Non-Performing Mortgage Loan.

**Split Mortgage Loan** (02/22/16)

A Senior Mortgage Loan and a Supplemental Mortgage Loan that are underwritten concurrently by the same Lender as one credit, have the same Mortgage Loan Origination Date, but which are documented as two separate Mortgage Loans (i.e., separate Loan Agreements, Notes, and Security Instruments), as further described in Part IIIC, Section 203. Each Mortgage Loan in a Split Mortgage Loans may have different loan terms (e.g., Maturity Date, required Prepayment Premium).

**Sponsor** (08/25/14)

A principal equity owner and/or the primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).

**Stabilized Residential Occupancy** (06/02/14)

When at least 80% of all dwelling units at a Property are occupied by tenant.

**Standby Facilities; Standby; Standby Execution** (06/02/14)

With respect to Bond Credit Enhancements, see Part XIV of the DUS Guide.

**Streamlined Rate Lock Mortgage Loan** (06/02/14)

A Mortgage Loan underwritten, originated, committed, and delivered to Fannie Mae in accordance with the requirements set forth in Part IVB, Chapter 2.

**Streamlined Rate Lock** (06/02/14)

A Rate Lock on a Mortgage Loan that can be obtained up to 90 days prior to the purchase of a Mortgage Loan by Fannie Mae.
Structured ARM Loan (SARM Loan) (06/02/14)  
An Adjustable Rate Mortgage Loan execution that does not have an embedded interest rate cap as more particularly described in Part IIIC, Chapter 6.

Structured Transaction (06/02/14)  
A Credit Facility or Bulk Delivery as further described in Part IIIC, Section 1101.

Structured Transaction Approval (06/02/14)  
An approval issued by Fannie Mae with respect to a Structured Transaction, as defined in Part IVB, Section 301.

Structured Transaction Loan Documents (06/02/14)  
All of the documentation evidencing or securing the Mortgage Loan executed in connection with a Structured Transaction, including but not limited to, a master credit facility or bulk delivery agreement, an Interest Rate Hedge Agreement, if applicable, and all other Loan Documents required by Fannie Mae.

Student Housing Property (08/22/16)  
A multifamily rental property in which greater than 40%, but less than 80%, of the units are leased to undergraduate or graduate students.

Subordinate Loan (10/13/14)  
A multifamily residential real estate loan secured by a Lien against the Property having a lesser priority than the Lien securing another multifamily residential real estate loan secured by a Lien on the same Property (often referred to as a “junior loan”), as further described in Part IIIC, Chapter 2.

Subordination Agreement (06/02/14)  
Any of:
(a) a Subordination Agreement (Conventional) form (Form 6414);  
(b) a Subordination Agreement (Affordable) form (Form 6456);  
(c) a Subordination Agreement (Affordable Housing) form (Form 4503);  
(d) a Subordination Agreement (Conventional) form (Form 4507); or  
(e) any other subordination agreement form approved by Fannie Mae;
as any such subordination agreement may be amended or restated from time to time.

**Subordination, Non-Disturbance and Attornment Agreement (SNDA) (06/02/14)**

An agreement that evidences a tenant’s agreement to subordinate its interest in the Property to the Lender, which shall be on any of:

(a) Subordination, Non-Disturbance and Attornment Agreement (Form 4510);

(b) Subordination, Non-Disturbance and Attornment Agreement (Form 6415); or

(c) another agreement approved by Fannie Mae that subordinates the priority of a lease between the Borrower, as lessor, and the lessee thereunder, to the lien of the Security Instrument, as any such agreement may be amended or restated from time to time.

**Subservicer (08/25/14)**

An Outside Party (including a Lender Affiliate) approved by Fannie Mae to perform servicing Restricted Functions pursuant to Part II, Section 513.

**Substantial Rehabilitation (06/02/14)**

When used in connection with the Mezzanine Financing options discussed in Part IIIC, Chapter 10, the rehabilitation of a Property where the Borrower has made or will make repairs, replacements or improvements either (a) in an amount greater than or equal to the greater of (1) $20,000 per unit and involves tenant temporary relocation, or (2) 25% of the outstanding Mortgage Loan amount; or (b) of a sufficient construction complexity that a Forward Commitment is warranted with Fannie Mae approval by the Lender’s Fannie Mae Representative.

**Supplemental Mortgage Loan (10/13/14)**

A Subordinate Mortgage Loan purchased by Fannie Mae from the Lender in accordance with the requirements of, and as further described in, Part IIIC, Section 202.

**Suspicious Activity Report (SAR) (03/30/15)**

A report made by a financial institution to the Financial Crimes Enforcement Network (FinCEN), regarding suspicious or potentially suspicious activity.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>T&amp;I (or Taxes and Insurance)</td>
<td>Any (a) taxes, assessments, vault rentals, and other charges, if any, general, special, or otherwise, including assessments for schools, public betterments, and general or local improvements, which are levied, assessed, or imposed by any public authority or quasi-public authority, and which, if not paid, may become a lien, on the Property, ground rents, and (b) insurance premiums, as applicable, due with respect to the Property.</td>
</tr>
<tr>
<td>T&amp;I Custodial Account</td>
<td>A Custodial Account for the deposit of T&amp;I and other impound escrow funds.</td>
</tr>
<tr>
<td>Tenant Estoppel Certificate</td>
<td>A document executed by a tenant certifying to certain lease information which shall be on Form 4539 (as amended or restated from time to time), Form 6413 (as amended or restated from time to time), or any other form of estoppel approved by Fannie Mae.</td>
</tr>
<tr>
<td>Terminating Fund Key Principal</td>
<td>A Fund Key Principal whose stated termination date in its organizational documents is a date prior in time to the Mortgage Loan’s stated Maturity Date (without taking into account any extension options that may be contained in the Fund Key Principal’s organizational documents unless such extension options previously have been irrevocably exercised).</td>
</tr>
<tr>
<td>Terminating Fund Principal</td>
<td>A Fund Principal whose stated termination date in its organizational documents is a date prior in time to the Mortgage Loan’s stated Maturity Date (without taking into account any extension options that may be contained in the Fund Principal’s organizational documents unless such extension options previously have been irrevocably exercised).</td>
</tr>
<tr>
<td>Third Party MBS Investor</td>
<td>An MBS Investor for an MBS Mortgage Loan that is not the Multifamily Trading Desk.</td>
</tr>
<tr>
<td>Third Party MBS Trading Agreement</td>
<td>An arrangement between the Lender and a Third Party MBS Investor to trade MBS, as defined in Part IVA, Section 302.</td>
</tr>
</tbody>
</table>
Tier (06/02/14)

See definition for Pricing and Underwriting Tier.

Tier 1, Tier 2, Tier 3, or Tier 4 (06/02/14)

The 4 Pricing and Underwriting Tier designations described as such in the Multifamily Underwriting Standards.

Tier Dropping Supplemental Mortgage Loan (06/02/14)

As defined in Part IIIC, Section 202.

Transaction Approval Memo (06/02/14)

A document that (a) is submitted to the Lender’s internal loan committee or other similar body in connection with the approval of the proposed Mortgage Loan transaction or in connection with a transfer or assumption of the Mortgage Loan, and (b) contains:

1. an analysis of all material strengths and weaknesses with mitigations, if any, of the proposed Mortgage Loan transaction;
2. an affirmation that the proposed Mortgage Loan transaction complies with all relevant laws (including compliance with OFAC requirements);
3. the underwriting conclusions and the Chief Underwriter’s approval of the proposed Mortgage Loan transaction;
4. documented records of all outstanding code violations in a form issued by the governing authority where the Property is located; and
5. such other information as may be required by this Guide.

Transfer/Assumption (05/21/18)

Collectively, any transaction or series of transactions that includes any or all of the following:

(a) Assumption: any transfer of the Borrower's fee simple title or ground leasehold interest in the Property that is accompanied by an assumption of the Mortgage Loan by a new Person as the Borrower;

(b) Change in Legal Entity: a conversion of the Borrower from one type of legal entity into another type (e.g., a limited partnership converting into a limited liability company), if such conversion results in a change in any of the assets, liabilities, legal rights, or obligations of the Borrower (or of any Key Principal, any guarantor, or any general partner of the Borrower, as applicable), by operation of law or otherwise; or
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership Interest Transfer</td>
<td>any transfers of direct or indirect ownership interests in the Borrower, any Key Principal, or any guarantor of the Mortgage Loan.</td>
</tr>
<tr>
<td>Trust Agreement (06/02/14)</td>
<td>The applicable “Multifamily Master Trust Agreement” or applicable trust indenture, by and among Fannie Mae in its corporate capacities as issuer, master servicer, and guarantor, and Fannie Mae in its capacity as trustee, as it may be amended or restated from time to time.</td>
</tr>
<tr>
<td>Trust Documents (06/02/14)</td>
<td>As to any MBS or DMBS, the Trust Agreement, the related “Issue Supplement,” and any amendment related to either of them.</td>
</tr>
<tr>
<td>UCC (05/21/18)</td>
<td>Uniform Commercial Code</td>
</tr>
<tr>
<td>Underwriting Certificates (06/02/14)</td>
<td>Any of (i) Multifamily Underwriting Certificate (Form 6460.Borrower, Form 6460.Guarantor, Form 6460.IDOT.Borrower, Form 6460.IDOT.IDOT.Guarantor or Form 6460.Key Principal), or (ii) Underwriting Certificate (Form 4667.Borrower or Form 4667.Key Principal), as applicable, (iii) or other such forms as approved by Fannie Mae.</td>
</tr>
<tr>
<td>Underwriting Interest Rate Floor (or Underwriting Floor) (07/15/16)</td>
<td>The lowest interest rate that may be used by the Lender in determining the Mortgage Loan amount and which is listed in the Multifamily Underwriting Standards for 5, 7, and 10 year balloon Fixed Rate and Adjustable Rate Mortgage Loans as listed in the Multifamily Underwriting Standards.</td>
</tr>
<tr>
<td>Underwriting Package (01/23/17)</td>
<td>Information required by Fannie Mae in order to review the Lender’s underwriting of a Mortgage Loan including, but not limited to, some or all of the following: the Transaction Approval Memo, related underwriting spreadsheets, rent roll, Appraisal, Environmental Site Assessment, seismic reports, PNA, organizational charts, photographs of the Property, any minimum required data fields in DUS Gateway, and any other relevant agreements or documentation.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Underwriting Value</td>
<td>The value used by the Lender to underwrite the Property securing a Mortgage Loan, pursuant to Part IIA, Section 310.</td>
</tr>
<tr>
<td>Underwritten Debt Service</td>
<td>As of any date of determination, the ratio of (a) Underwritten Net Cash Flow to (b) the total of (i) the anticipated annual debt service for a contemplated Mortgage Loan amount based on a level debt service payment with the applicable Amortization, and calculated based on the underwriting formula generally described in Part IIA, Section 311, and as adjusted for the specific Asset Class, product feature, or execution in Part IIIB or Part IIIC, plus (ii) required annual payments of principal and/or interest on any Mezzanine Financing or Hard Preferred Equity, provided that, if the Hard Preferred Equity accrues interest at a variable rate, then the anticipated payments must be determined using the maximum lifetime interest rate required under the terms of the documents evidencing the Hard Preferred Equity.</td>
</tr>
<tr>
<td>Coverage Ratio (Underwritten DSCR)</td>
<td>Underwritten Debt Service Coverage Ratio</td>
</tr>
<tr>
<td>Underwritten Net Cash Flow</td>
<td>For any specified period (or if no period is specified, on an annual basis), the Net Cash Flow for such period, as adjusted by the Lender according to the requirements generally described in Part IIA, Section 311, and as adjusted for the specific Asset Class, product feature, or execution in Part IIIB or Part IIIC.</td>
</tr>
<tr>
<td>(Underwritten NCF)</td>
<td></td>
</tr>
<tr>
<td>Underwritten Net Operating</td>
<td>For any specified period (or if no period is specified, on an annual basis), the Net Operating Income for such period, as adjusted by the Lender according to the requirements generally described in Part IIA, Section 311, and as adjusted for the specific Asset Class, product feature, or execution in Part IIIB or Part IIIC.</td>
</tr>
<tr>
<td>Income (Underwritten NOI)</td>
<td></td>
</tr>
<tr>
<td>(07/15/16)</td>
<td></td>
</tr>
<tr>
<td>Underwritten NCF (07/15/16)</td>
<td>Underwritten Net Cash Flow</td>
</tr>
<tr>
<td>Underwritten NOI (06/02/14)</td>
<td>Underwritten Net Operating Income</td>
</tr>
<tr>
<td>Uniform Commercial Code</td>
<td>The Uniform Commercial Code in effect in the jurisdiction where the Property is located, as amended from time to time</td>
</tr>
<tr>
<td>(05/21/18)</td>
<td></td>
</tr>
<tr>
<td>Unpaid Principal Balance</td>
<td>As of a given date, the unpaid principal balance of the Mortgage Loan.</td>
</tr>
<tr>
<td>(03/30/15)</td>
<td></td>
</tr>
<tr>
<td><strong>UPB (03/30/15)</strong></td>
<td>Unpaid Principal Balance</td>
</tr>
<tr>
<td>---------------------</td>
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</tr>
<tr>
<td><strong>USPAP (08/25/14)</strong></td>
<td>Uniform Standards of Professional Appraisal Practice</td>
</tr>
</tbody>
</table>

### V

**Variable Underwriting Rate (06/02/14)**
The rate set forth in (1) Part IIIC, Section 604 for Structured ARM Mortgage Loans and (2) Part IIIC, Section 901 for DMBS Mortgage Loans.

**Voidable Preference (06/02/14)**
As defined in the U.S. Bankruptcy Code, 11 U.S.C. §§ 101, et seq., as amended or superseded from time to time.

### W

**Watchlist (06/02/14)**
Mortgage Loans that exhibit heightened credit risk as provided in Part V, Chapter 6.

### Y

**Yield Maintenance Period End Date (06/02/14)**
As set forth in the applicable Loan Documents.
## Appendix A to Part I

### Fannie Mae Multifamily Contacts

<table>
<thead>
<tr>
<th>Contact Type</th>
<th>Contact Details</th>
</tr>
</thead>
</table>
| Capital Markets Early Funding Desk (02/04/19)                                | The Fannie Mae Capital Markets Early Funding Desk, which can be contacted for ASAP funding via:  
|                                                                              | • telephone at 866-944-3863; or  
|                                                                              | • email at early_funding@fanniemae.com.                                                                                                     |
| Capital Markets Operations Allocations (02/04/19)                             | The Fannie Mae Capital Markets Operations Allocations team, which can be contacted for pre-settlement MBS issuance confirmations via email at:  
|                                                                              | • Cap_Mkts_Ops_Allocations@fanniemae.com.                                                                                                  |
| Fannie Mae Ethics (02/04/19)                                                 | The Fannie Mae Ethics team, which can be contacted via:  
|                                                                              | • telephone at (888) 363-8442; or  
|                                                                              | • email at fm_ethics@fanniemae.com.                                                                                                        |
| Fannie Mae Mezz (02/04/19)                                                    | The Fannie Mae Mezzanine team, which can be contacted via email at:  
|                                                                              | • Mezz_team@fanniemae.com                                                                                                                      |
| Fannie Mae Mortgage Fraud Division (02/04/19)                                 | The Fannie Mae Mortgage Fraud Division, which can be contacted via:  
|                                                                              | • telephone at (800) 2FANNIE (232-6643); or  
|                                                                              | • https://fims.secure.force.com/MortgageFraudReport/                                                                                         |
| Fannie Mae Multifamily Partner Risk Management (02/04/19)                    | The Fannie Mae Multifamily Partner Risk Management team, which can be contacted via email at:  
|                                                                              | • partner_risk_management@fanniemae.com.                                                                                                   |
| Fannie Mae Privacy Office (02/04/19)                                         | The Fannie Mae Privacy Office, which can be contacted via email at:  
|                                                                              | • privacy_workinggroup@fanniemae.com.                                                                                                       |
| Fannie Mae Structured Transactions Legal Disclosure (02/04/19)               | The Fannie Mae Legal Disclosure team for Structured Transactions, which can be contacted via email at:  
|                                                                              | • mf_legal_disclosure_team@fanniemae.com.                                                                                                  |
| Multifamily Acquisitions (02/04/19) | The Fannie Mae Multifamily Acquisitions team, which can be contacted via:  
- telephone at 800-232-6643, Option 2;  
- email at [MF_Acquisitions@fanniemae.com](mailto:MF_Acquisitions@fanniemae.com); or  
- mail at:  
  Fannie Mae Multifamily Acquisitions  
  1100 15th Street  
  Washington, DC  20005  
  ATTN: Vice President for Operations–Multifamily |
| Multifamily Asset Management (02/04/19) | The Fannie Mae Multifamily Asset Management team, which can be contacted via email at:  
- [drawer_am@fanniemae.com](mailto:drawer_am@fanniemae.com). |
| Multifamily Bond Credit Enhancement (02/04/19) | The Fannie Mae Multifamily Bond Servicing team, which can be contacted via:  
- telephone at 800-940-4646; or  
- email at [MF_Bond_Credit_Enhancement_Team@fanniemae.com](mailto:MF_Bond_Credit_Enhancement_Team@fanniemae.com). |
| Multifamily Business Operations (02/04/19) | The Fannie Mae Multifamily Business Operations team, which can be contacted via email at:  
- [multifamily_bizops@fanniemae.com](mailto:multifamily_bizops@fanniemae.com). |
| Multifamily Certification and Custody (02/04/19/18) | The Fannie Mae Multifamily Certification and Custody team, which can be contacted via:  
- telephone at 800-940-4646; or  
- email at [multifamcert_team@fanniemae.com](mailto:multifamcert_team@fanniemae.com). |
| Multifamily Disclosure Operations (02/04/19) | The Fannie Mae Multifamily Disclosure Operations team, which can be contacted via email at:  
- [MF_Special_Disclosures@fanniemae.com](mailto:MF_Special_Disclosures@fanniemae.com). |
| Multifamily Inspections (02/04/19) | The Fannie Mae Multifamily Property Inspections Asset Management team, which can be contacted via email at:  
- [MF_Inspections@fanniemae.com](mailto:MF_Inspections@fanniemae.com). |
| Multifamily Insurance (02/04/19) | The Fannie Mae Multifamily Insurance Asset Management team, which can be contacted via email at:  
- [drawer_insurance@fanniemae.com](mailto:drawer_insurance@fanniemae.com). |
| Multifamily Loss Mitigation (02/04/19) | The Fannie Mae Multifamily Loss Mitigation team, which can be contacted via email at:  
- [LM_Watch@fanniemae.com](mailto:LM_Watch@fanniemae.com). |
| Multifamily Master Servicing (02/04/19) | The Fannie Mae Multifamily Master Servicing team, which can be contacted:  
- via telephone at telephone at 800-940-4646; or  
- at Multifamily_Ops_servicing@fanniemae.com. |
|----------------------------------------|------------------------------------------------------------------|
| Multifamily Maturity Management (02/04/19) | The Fannie Mae Multifamily Maturity Management team, which can be contacted via email at:  
- Maturity_Management@fanniemae.com. |
| Multifamily Operating Statements (02/04/19) | The Fannie Mae Multifamily Operating Statements team, which can be contacted via email at:  
- mf_operatingstatements@fanniemae.com. |
| Multifamily Seniors Housing Property Asset Management (02/04/19) | The Fannie Mae Multifamily Seniors Housing Property Asset Management team, which can be contacted via email at:  
- seniors_am@fanniemae.com. |
| Multifamily Special Asset Management (02/04/19) | The Fannie Mae Multifamily Special Asset Management team, which can be contacted via email at:  
- sam_legal_mailbox@fanniemae.com. |
| Multifamily Structured Acquisitions (02/04/19) | The Fannie Mae Multifamily Structured Acquisitions Structured team, which can be contacted via:  
- telephone at 800-940-4646; or  
- email at MF_SPOT@fanniemae.com. |
| Multifamily Structured Asset Management (02/04/19) | The Fannie Mae Multifamily Structured Asset Management team, which can be contacted via email at:  
- Structured_AM@fanniemae.com. |
| Multifamily Trading Desk (02/04/19) | The Fannie Mae Multifamily Trading Desk which can be contacted via telephone at:  
- 888-889-1118. |
Part II – Lender Contractual Relationship

Chapter 1 – Basic Lender Eligibility Requirements

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Chapter 1 – Basic Lender Eligibility Requirements

Section 101.  Fannie Mae Approval Required (08/24/15)

To become a Lender, an organization must apply to Fannie Mae and be approved specifically as meeting the criteria for Lenders described in this Guide. From among the applicants that may be eligible for approval, Fannie Mae selects only those that, in Fannie Mae’s sole judgment, are best qualified to act as Lenders. Fannie Mae may accept or reject any application, in Fannie Mae’s sole discretion.

Only lenders approved in writing may sell Mortgage Loans to, or service Mortgage Loans for, Fannie Mae. Additionally, specific written approval is required for the sale and servicing of Mortgage Loans associated with certain special asset classes, products, and executions, including but not limited to Seniors Housing, Multifamily Affordable Housing, Green Preservation Plus, DLA Mezz, and bridge lending.

Each approved Lender must maintain continuous compliance with all obligations and requirements set forth in the Lender Contract and this Guide, other than the requirement to own Fannie Mae stock, which no longer applies. A noncompliant Lender may have its approval to sell or service Mortgage Loans suspended or revoked, or may be subject to other remedies under the Lender Contract or this Guide.

Section 102.  Assumption of Risk (08/25/14)

In exchange for receiving delegated authority to perform certain Mortgage Loan underwriting or servicing functions, a Lender may be required to assume a portion of the risk of loss on each Mortgage Loan.

Section 103.  Established Business Activity (08/25/14)

The origination and servicing of multifamily mortgage loans must be an established business activity of each applicant and approved Lender.

Section 104.  Lender’s Authority to do Business (08/25/14)

The Lender must obtain and maintain each license or other authority to do business in each jurisdiction where such licensing or authority is required, and the Lender's license or other authority to do business must not be suspended or revoked by any governmental authority.
Section 105. Financial Condition (08/25/14)

Each Fannie Mae DUS Lender must meet and maintain compliance with the DUS Capital Standards. Each other Multifamily Lender must meet and maintain compliance with standards and requirements set forth by Fannie Mae from time to time.

All Lenders must maintain acceptable levels of capital and liquidity in relation to their Fannie Mae obligations. Generally, Fannie Mae expects each Lender to demonstrate net worth growth and liquidity improvement as the size of its Fannie Mae servicing portfolio, and its exposure relating to any other business activities, increase.

In assessing the adequacy of a Lender's financial condition, Fannie Mae considers the quality of the assets comprising the Lender's net worth and the sufficiency of its liquidity in relation to the nature of the Lender's business activities and liabilities. Fannie Mae also evaluates other factors including, but not limited to, earnings history (with particular emphasis on recent performance), operating stability, and capitalization. The Lender's capital structure must demonstrate the owners' firm commitment of resources to the Lender, and none of the Lender's financial obligations may impose an unacceptable burden on the Lender.

Based on Fannie Mae's analysis, Fannie Mae may impose certain minimum or maximum volume restrictions (with corresponding fees or adjustments of loss sharing exposure), based on criteria that may change from time to time, all in Fannie Mae’s sole discretion.

Section 106. Qualified Staff and Adequate Facilities (07/10/17)

A Lender must demonstrate a high level of performance and proven ability to originate, underwrite, deliver, and service Mortgage Loans. The Lender, or a Lender Affiliate, must:

- continuously employ staff (especially key underwriting, servicing, and asset management personnel) who are highly competent and possess and maintain the requisite training and experience;
- establish a formal loan committee or other approving body or loan approval process;
- maintain appropriate facilities;
- employ suitable support staff; and
- maintain one or more continuity plans to ensure that the Lender will be able to continue to meet Fannie Mae’s requirements continuously, notwithstanding significant business disruptions, including, but not limited to, natural disasters, human error, or intentional attacks.
Section 107. Internal Audit and Management Control Systems (08/25/14)

The Lender must have adequate internal audit and management control systems that, at a minimum, will:

- assure that Mortgage Loans are documented, accounted for, and serviced according to, and in compliance with, the requirements of this Guide, the Lender Contract, and sound mortgage banking and accounting practices;
- assure compliance with the governmental requirements of each jurisdiction in which the Lender operates;
- guard against dishonest or fraudulent acts; and
- guard against errors and omissions by officers, employees, vendors, or other personnel.

If the Lender identifies a problem, the Lender must take appropriate action promptly to correct the problem, and must keep a record of any remedial activity. The Lender must make these records available to Fannie Mae for review upon request.

Section 108. Fidelity Bond and Errors and Omissions Insurance Policy (08/25/14)

Each Lender must maintain fidelity bond and errors and omissions insurance coverage that meets the requirements described in Part II, Chapter 5.

Section 109. Legal Identity of Lender and Employees of Lender (08/24/15)

The “Lender” means only the legal entity that is approved by Fannie Mae to sell or service Mortgage Loans, and does not include any Lender Affiliate or other entity related to the Lender. A Lender may engage an Affiliate to perform corporate support functions such as legal counsel; regulatory compliance; human resources; internal audit; finance, treasury, and financial reporting; or enterprise risk management; provided that all such services must be provided pursuant to a shared services agreement that expressly grants the Lender the right to require that all functions be performed in accordance with Fannie Mae requirements. Unless specifically authorized by Fannie Mae pursuant to Part II, Chapter 5, no entity other than the Lender may perform any function required of, or delegated to, the Lender.
**Section 110. Inspection Rights (08/24/15)**

Fannie Mae may conduct on-site business reviews to confirm that the Lender continues to comply with the requirements of this Part and the Lender Contract. The Lender must supply records and other documentation in such formats as Fannie Mae requires, and otherwise must cooperate with Fannie Mae, to demonstrate the Lender’s compliance. If necessary to satisfy the Lender’s requirements for protection of proprietary information and upon reasonable request prior to such on-site review, Fannie Mae will enter into a non-disclosure agreement with the Lender, substantially in the form of Fannie Mae’s standard non-disclosure agreement. The scope of the non-disclosure agreement will be expressly limited to the materials specified by the Lender as being subject to such agreement.
Part II – Lender Contractual Relationship

Chapter 2 – Application Procedures

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Chapter 2 – Application Procedures

Section 201. Application Process (08/24/15)

Section 201.01. Preliminary Review

Prior to submitting a formal application for approval as a Lender, a prospective applicant should schedule an informal pre-application meeting with a Fannie Mae Representative to introduce the prospective applicant and obtain guidance regarding the application process.

Fannie Mae may ask the prospective applicant to submit preliminary information (e.g., financial statements, a corporate resume and organizational diagram, description of funding sources, and a business plan) that will help assess basic eligibility.

Section 201.02. Pre-Application Conference

If Fannie Mae is willing and able to consider adding a new Lender, and determines that the prospective applicant appears to be eligible for consideration (including verification that the applicant is not (i) identified as a “Specially Designated National” or other type of “prohibited person” on the list maintained by the Office of Foreign Assets Control (“OFAC”); (ii) designated as a “Suspended Counterparty” by the Federal Housing Finance Agency; or (iii) a Person that exhibits anti-money laundering (“AML”) risk that is not acceptable under the requirements of Fannie Mae’s AML policy), then a second, more formal pre-application conference may be scheduled. This follow-up conference will involve various Fannie Mae Representatives, and usually will be held at Fannie Mae’s offices in Washington, DC. During the conference, Fannie Mae will review the prospective applicant's experience, financial status, and business plan, and will indicate whether Fannie Mae is willing to consider a formal application from the prospective applicant.

Section 201.03. Application Fee

Fannie Mae charges an application fee to cover the cost of evaluating the prospective Lender's application. The minimum application fee to become a DUS Lender is $100,000.00. The application fee to become a Multifamily Lender will be determined by Fannie Mae at the time of application. Application fees are not refundable.

Section 201.04. Application Package

A formal application for approval as a Lender must be submitted to Fannie Mae Multifamily Partner Risk Management and must be signed by an authorized senior officer or managing member of the applicant (or, if the applicant is a partnership, an authorized senior officer or managing member of each general partner). If the applicant intends to form a
subsidiary or other separate entity to become the Lender, the applicant must submit all required information for both the applicant and the separate lender entity. The application package must include the following.

A. The applicable application fee.

B. Application for Fannie Mae Approval (Form 1010), with Sections I, II, V, and IX completed, including correct legal name, state or other jurisdiction of organization, physical and mailing addresses, and taxpayer identification number. Fannie Mae is subject to the Housing and Economic Recovery Act of 2008 (“HERA”), which requires Fannie Mae to promote diversity and inclusion of minorities, women, individuals with disabilities, and minority-, women-, and disabled-owned businesses in its contracts. Accordingly, Form 1010 also asks applicants to disclose certain demographic information about the owners of the proposed lender.

C. Authorization for Verification of Credit and Business References (Form 1001).

D. The applicant's audited financial statements for the preceding 3 years, prepared by an independent certified public accountant. If the applicant is a state or federally-supervised depository institution, it may instead submit its regulatory financial reports for the preceding 3 years, accompanied by a certification that they are identical to those submitted to its supervisor. An unaudited interim financial statement also must be submitted if the latest audited statement is more than 6 months old.

E. A description of:
   - the applicant's organization, including an organizational chart or diagram that identifies the applicant’s relationships to corporate or other parents, subsidiaries, and other Lender Affiliates, and all significant positions by name and title;
   - the applicant's organizational history; and
   - all prior experience of the applicant with Fannie Mae.

F. Identification of all:
   - officers, directors, stockholders, or members with more than a 5% voting interest;
   - date of birth for any individual owner who holds 25% or greater ownership or financial interest (including passive investors);
   - taxpayer identification number of any owner who holds 25% or greater ownership or financial interest (including passive investors);
   - all general partners;
- all limited partners with more than a 5% ownership interest; and
- a description of all prior experience of such Persons with Fannie Mae.

G. A description of the applicant's current business activities, with particular emphasis on its mortgage lending/servicing activities. The description should include specific information on the types, volumes, geographic distribution, and performance (defaults/foreclosures) of loans originated by the applicant over the past 5 years, as well as specific information on the types, volumes, geographic distribution, and performance of all loans currently serviced by the applicant.

H. Copies of the applicant's (and any general partner's) organizational documents, including (i) articles of incorporation or charter and bylaws, (ii) articles of organization and operating agreement, or partnership agreement and certificate, and (iii) good standing certificate from the jurisdiction of organization dated not more than 15 days prior to the date the applicant's application package is delivered to Fannie Mae.

I. A description of the applicant's parent entity (if any), subsidiaries (if any), and any other Lender Affiliates. The description must identify the primary business activities of all such entities and explain the specific nature of the relationships with the applicant.

J. Identification of, and resumes for, all in-house personnel (including, but not limited to, the Chief Underwriter and other underwriting staff, origination and closing personnel, and servicing/asset management personnel) and any known Non-Employee or other Outside Party who will be involved in performing significant Fannie Mae functions. The functions to be performed by each person must be described.

K. A business and marketing plan that addresses, at a minimum:
- estimates of the volumes of Fannie Mae business that the applicant would reasonably expect to originate in each of its first 3 years as a Lender, and how the applicant would expect to achieve such production volumes;
- the markets in which the applicant intends to focus its Fannie Mae Mortgage Loan origination activity;
- the types of loans/properties that the applicant intends to target for its Fannie Mae Mortgage Loan originations, identifying specifically any specialty product types for which the applicant seeks Fannie Mae approval;
- identification of any warehouse credit line or other financing source that the applicant intends to use in operating its business or originating Fannie Mae Mortgage Loans, together with a description of the terms of and
collateral for such financing, executed Certificate of Corporate Debt Compliance (Form 4202), if applicable, and verification that the applicant’s servicing of the debt will not jeopardize the applicant’s continuous compliance with the DUS Capital Standards;

- how the applicant intends to market the Fannie Mae products and executions to Borrowers, including specific techniques that would be employed to generate Fannie Mae Mortgage Loan business;

- identification of any Correspondents/brokers that the applicant intends to use in originating Mortgage Loans for purchase by Fannie Mae;

- identification of any outsourcing (including asset management, cashiering, or any other function) that the applicant intends to use in its servicing of Mortgage Loans, including identification of any Outside Party that the applicant intends to use for such functions, and identification of any functions that the applicant intends to perform using off-shore personnel, whether employed by the applicant or by an Outside Party; and

- any organizational changes that the applicant is planning to make to be able to carry out its responsibilities as a Lender.

L. A description of the applicant's loan approval process, including the identities of the applicant’s loan committee members or others with loan approval authority, and the applicant’s alternative requirements for loan approval if the applicant does not use a loan committee.

M. A procedures manual that describes, among other things, the applicant's proposed Fannie Mae Mortgage Loan processing, underwriting, closing/delivery, servicing, and asset management procedures. The applicant's Fannie Mae Mortgage Loan procedures manual must be consistent with and must reflect the applicable requirements of this Guide.

N. Copies of the applicant's fidelity/surety bond and errors and omissions insurance policy that verify to Fannie Mae’s satisfaction the applicant’s maintenance of coverage meeting the requirements contained in Part II, Chapter 5.

O. A list, with copies of all adverse regulatory actions pertaining to the proposed lender, any Lender Affiliate, or Persons in Control of the proposed lender during the 10 year period preceding submission of the application, which information must be updated and supplemented if any such activity occurs following submission.

P. Any other information that Fannie Mae requests the applicant to submit for review.
Section 201.05. Application Review

Fannie Mae evaluates each applicant in relation to the applicant’s eligibility criteria set forth in this Guide. Fannie Mae will review the applicant’s:

- financial condition;
- past experience with Fannie Mae as well as with other government sponsored enterprises and federal agencies;
- organizational documents;
- business activities;
- experience (particularly that of its senior personnel); and
- portfolio quality, performance, and geographical distribution of all mortgage loans secured by multifamily residential real estate.

Fannie Mae will consider any factors that may affect the applicant's ability to originate, underwrite, deliver, and service Mortgage Loans according to the requirements of this Guide, as well as any other factors as determined by Fannie Mae. During the application process, Fannie Mae may visit the applicant's offices and interview key personnel.

Fannie Mae, in its sole discretion, may conditionally or unconditionally approve, defer, or reject any application. An applicant whose application is deferred may be required to provide updated material at a later time, but will not be required to submit another application fee.

Section 202. Assignment of Lender Identification Number and Execution of Contracts (08/25/14)

If an applicant is notified by Fannie Mae that approval will be granted, the applicant must:

- execute any requisite Lender Contract documents;
- post any required Restricted Liquidity Reserve with the Collateral Custodian;
- furnish any required legal opinions; and
- meet any special conditions of its approval.

Following receipt of all required contracts, materials, and funds, Fannie Mae will assign the proposed Lender an identification number and will execute all original counterparts of the Lender Contract. Only then will the Lender be authorized to originate, underwrite, deliver, or service Mortgage Loans to or for Fannie Mae, to the extent permitted expressly by the Lender Contract.
Section 203. Subscribing to Fannie Mae Systems and Publications (08/25/14)

The Lender must subscribe to all applicable systems for the various functions relating to the selling and servicing of Mortgage Loans for Fannie Mae, and to the official publisher of this Guide. Fannie Mae will provide the Lender with relevant information regarding the required subscriptions at the time of approval. Some systems may require payment of a subscription fee or one-time administrative charge by the Lender. The Lender must subscribe to such systems or publication(s) as soon as possible after the Lender receives its Lender identification number, but in any case prior to obtaining a Commitment from Fannie Mae. The Lender must also arrange for staff notification and training to ensure that the Lender’s personnel are capable of using all necessary systems appropriately.
Part II – Lender Contractual Relationship

Chapter 3 – Lender and Fannie Mae Contractual Provisions

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Multifamily Selling and Servicing Guide
Part II
08/24/15
Chapter 3 – Lender and Fannie Mae Contractual Provisions

Section 301. Lender Contract Documents (08/25/14)

The relationship between Fannie Mae and the Lender is defined and controlled by several documents: this Guide, the Lender Contract, the Commitment for each Mortgage Loan, the Pricing Memo, and any other agreement specifically required as a condition of the Lender's approval or continuing status as a Lender.

Section 302. Amendments to this Guide (08/25/14)

Fannie Mae reserves the right, in its sole discretion, to alter or waive any of the requirements of this Guide, to impose additional requirements, and to rescind or amend any and all material set forth in this Guide. At any time, Fannie Mae may amend or supplement this Guide through the issuance of Guide Updates or Lender Memos, or may supersede this Guide in its entirety.

Any exception or variance to any requirement set forth in this Guide requires written approval from Fannie Mae.

Section 303. Business Entity and Classification of Lender as a DUS Lender or Multifamily Lender (08/25/14)

A Lender may be classified as a DUS Lender, a Multifamily Lender, or other type of Lender, as determined by Fannie Mae in its sole discretion. Unless the context specifies otherwise, the requirements of this Guide apply to all Lenders.

A DUS Lender must be a legal entity with business limited to Fannie Mae DUS, Freddie Mac non-recourse transactions, FHA, or other non-recourse origination, selling, servicing, financial advisory activity, or other business activities approved by Fannie Mae.

Fannie Mae may approve a DUS Lender to engage in other businesses, possibly including recourse origination, selling, servicing, or other financial advisory activity, if:

- the Lender is rated BBB or better by Standard & Poor’s, or an equivalent rating by Moody’s or Fitch; or
- the Lender is owned by an institution that has guaranteed the DUS Lender’s obligations to Fannie Mae, and that guarantor institution is rated BBB or better by Standard & Poor’s, or an equivalent rating by Moody’s or Fitch.
The DUS Lender is expected to continue originating substantial production volume of new Fannie Mae DUS Mortgage Loans, as measured against the Lender’s previous production and that of other DUS Lenders.

Section 304. Restrictions on Types of Mortgage Loans to be Purchased orServiced (08/25/14)

Fannie Mae reserves the right to restrict any Lender’s sale or servicing of types of Mortgage Loans or Participation Interests.

Section 305. Purchase of Mortgage Loans by Fannie Mae (08/24/15)

Section 305.01. Effect of Commitment

Any Mortgage Loan purchased by Fannie Mae must meet the Guide and Lender Contract requirements for such Mortgage Loan on the day Fannie Mae confirms the Commitment. Fannie Mae may reject any request for a Commitment, and nothing in this Guide or the Lender Contract obligates Fannie Mae to confirm any request for a Commitment. Once confirmed by Fannie Mae, a Commitment also constitutes the Lender’s commitment that the Mortgage Loan will meet the Guide and Lender Contract requirements upon Delivery to Fannie Mae. A confirmed Commitment is not assignable by the Lender.

Section 305.02. Lender’s Representations and Warranties Regarding Fannie Mae’s Purchase of Mortgage Loans

At the time of every Mortgage Loan is purchased by to Fannie Mae, the Lender shall be deemed to represent and warrant that:

- the Lender was, at all times relevant to its underwriting or origination of the Mortgage Loan, authorized to transact business in the jurisdiction where the Property is located or, if the Lender is not so authorized, that none of its activities related to lending, acquiring, holding, or selling the Mortgage Loan requires authorization to transact business in the jurisdiction where the Property is located;
- the Lender is the sole owner and holder of the Mortgage Loan and has full right and authority to sell such Mortgage Loan to Fannie Mae;
- the Lender’s right to sell the Mortgage Loan is not subject to any other party’s interest or Lien, or to an agreement with any other party;
- the Mortgage Loan conforms to the requirements of this Guide, the Multifamily Underwriting Standards, and to all applicable requirements in the Lender Contract;
the Mortgage Loan either meets or is exempt from any usury laws or regulations;

- the Borrower is not in default under any of the terms of the Loan Documents and, with the passage of time, the giving of notice, or both, would not be in default under any of the terms of the Loan Documents;

- the Mortgage Loan has not been materially modified, satisfied, cancelled, released, or subordinated, or if it has, then the Lender has notified Fannie Mae of such fact, and Fannie Mae has provided written approval of the matter;

- the Lien on the Property, any Personal Property, or any other Collateral securing the Mortgage Loan, is a valid and subsisting Lien;

- the Loan Documents have been properly signed by the Borrower and are valid and enforceable obligations of the Borrower, subject to bankruptcy laws or other general principles of equity;

- the Property is not damaged by any Catastrophic Event, and no proceeding is pending for the partial or total condemnation of the Property; and

- if the Mortgage Loan is insured or guaranteed by any party, including without limitation any governmental authority, such insurance or guaranty is in full force and effect, and the Lender has complied with all applicable provisions of the insurance or guaranty that covers the Mortgage Loan.

Section 305.03. Transfer of All Right, Title and Interest in Mortgage Loans

The Lender agrees that all of the Lender's right, title, and interest in and to a Mortgage Loan that is purchased and delivered to Fannie Mae, including, without limitation, all associated servicing rights, are sold, transferred, set over, and otherwise conveyed to Fannie Mae as of the date of Fannie Mae's purchase of the Mortgage Loan, as provided in Part IVA, Chapter 6.

Section 305.04. True Sale

The Lender and Fannie Mae intend all purchases of Mortgage Loans by the Lender to Fannie Mae (whether for cash or MBS/DMBS) to be absolute sales.

Section 306. Servicing of Mortgage Loans for Fannie Mae (08/24/15)

Section 306.01. General

Notwithstanding the Lender’s conveyance of servicing rights to Fannie Mae, Fannie Mae will permit the Lender to service Mortgage Loans provided that, without Fannie Mae's prior written approval, the Lender may not:
- deliver a Mortgage Loan to Fannie Mae without also conveying to Fannie Mae the servicing rights for such Mortgage Loan;
- transfer the servicing of any Mortgage Loan in its portfolio to any other Lender (or other entity); or
- subcontract for the servicing of any Mortgage Loan.

The Lender must service the Mortgage Loans that it sells to Fannie Mae, as well as any other Mortgage Loans for which it assumes the servicing obligations, in accordance with:
- the terms and conditions of the Lender Contract;
- the applicable policies and procedures set forth in this Guide;
- the provisions of the applicable Loan Documents; and
- any other reasonable instructions from Fannie Mae, including those to ensure that the Lender’s activities meet the requirements and specifications of Fannie Mae’s systems.

In the event of any conflict between the requirements of this Guide and the provisions of any Loan Document, the provisions of the applicable Loan Document control.

The Lender’s servicing obligations continue until terminated pursuant to the Lender Contract or this Guide.

**Section 306.02. Independent Contractor and Conduct**

As a Fannie Mae servicer, the Lender functions as an independent contractor, not an agent or representative of Fannie Mae. The Lender must always act diligently to protect Fannie Mae's investment interests in the Mortgage Loans, and otherwise must comply with Accepted Servicing Practices. Although Fannie Mae delegates significant decision-making authority and responsibility to the Lender, consultation with Fannie Mae is encouraged whenever matters arise that could materially affect Fannie Mae's investment interests.

**Section 306.03. Monitoring Borrower Compliance**

For each Mortgage Loan it services, the Lender must monitor the Borrower's compliance with the terms and conditions of the Note, Security Instrument, any applicable Collateral Agreement, and all other Loan Documents, and must take such actions as are appropriate to facilitate compliance or address any instance of non-compliance.

**Section 306.04. Servicing Process**

Unless agreed to by Fannie Mae, the Lender must use Fannie Mae servicing forms, report formats, and reporting procedures, including any applicable electronic reporting procedures.
Section 306.05. Unencumbered Servicing of Fannie Mae Mortgage Loans

Fannie Mae prohibits the pledging of Fannie Mae servicing rights to third parties. A Lender’s earned servicing income may be pledged provided the pledge and other financing terms comply with the requirements of Part II, Section 408.

Section 306.06. Servicing at Lender’s Own Expense

All costs of servicing each Mortgage Loan shall be borne by the Lender unless this Guide expressly provides otherwise.

Section 306.07. Term of Servicing Obligation

The Lender must service each Mortgage Loan continuously from the date it sells the Mortgage Loan to Fannie Mae until the earliest of the date on which:

- the Mortgage Loan’s principal and interest have been paid in full and all post payoff actions completed;
- the Mortgage Loan has been liquidated and the Property properly disposed of; or
- the Lender’s servicing authority is terminated in accordance with this Guide or the Lender Contract.

Section 306.08. Ownership of Records; Document Custodian

A. Whole Loans

For a Mortgage Loan owned 100% by Fannie Mae, the Loan Documents and all other Mortgage Loan records shall be the property of Fannie Mae, whether the Lender prepares such records or receives such records from another party. The Lender is permitted to retain possession of records relating to servicing of the Mortgage Loan so long as the Lender continues to service that Mortgage Loan. However, the Lender must provide to Fannie Mae, or its designee, originals or copies of any records upon request by Fannie Mae. Fannie Mae will be the document custodian of the Loan Documents unless the Lender Contract provides otherwise.

B. Participation Interests

For Participation Interests in a Mortgage Loan, the Loan Documents and all other Mortgage Loan records are owned jointly by all owners of such Mortgage Loan. If Fannie Mae owns a minority Participation Interest in a Mortgage Loan, the Lender will be permitted to possess the Loan Documents and other Mortgage Loan records as the document custodian for all joint owners. If Fannie Mae owns a majority Participation Interest in a Mortgage Loan, Fannie
Mae will be the document custodian of the Loan Documents, but the Lender shall be permitted to retain possession of records relating to servicing the Mortgage Loan so long as the Lender continues to service that Mortgage Loan; provided, however, the Lender must provide to Fannie Mae, or its designee, originals or copies of any records upon request by Fannie Mae.

Section 306.09. Indemnification

The Lender indemnifies and holds Fannie Mae harmless from and against all losses, damages, judgments, or legal expenses that result from the Lender’s failure in any way to perform its servicing duties in accordance with the Lender Contract or this Guide. If any party makes a claim or initiates a proceeding against Fannie Mae based on the Lender’s acts or omissions in servicing a Mortgage Loan, the Lender’s obligation to indemnify and hold Fannie Mae harmless must be met regardless of whether the suit, claim, or proceeding has merit.

The Lender will not be obligated under this indemnity if:

- Fannie Mae provided the Lender with express written instructions regarding a servicing matter that deviated from the Lender Contract or this Guide;
- the Lender followed such instructions; and
- the indemnity obligation is a consequence of the Lender’s compliance with Fannie Mae’s written instructions.

Section 307. Servicing Transfers (08/24/15)

Section 307.01. General

The Lender may not assign its servicing obligations for any Mortgage Loan without first obtaining Fannie Mae’s written consent, and the transferee Lender’s executing a servicing contract, transfer agreement, or any other required documentation.

Section 307.02. Lender Initiated Servicing Transfers

A. Notice of Proposed Transfer

To obtain Fannie Mae's approval of a Lender-initiated servicing transfer, at least 60 days before the proposed transfer date the proposed transferor and transferee must submit a written request:

- identifying the transferor and transferee;
- demonstrating the transferee’s ability to meet its servicing responsibilities;
- stating that the transferee is a Fannie Mae servicer, or demonstrating the transferee’s qualifications to become a Fannie Mae servicer by supplying all information required for approval pursuant to Part II, Chapter 2;
explaining the reason for the transfer request; and

- summarizing the transfer terms with sufficient specificity to allow Fannie Mae to confirm the status of each Mortgage Loan to be transferred.

The request shall be accompanied by a Request for Approval of Multifamily Servicing Transfer (Form 630), and shall be sent to Multifamily Operations and Fannie Mae Multifamily Partner Risk Management at:

Multifamily Operations
multifamily_lender_oversight_grp@fanniemae.com

Fannie Mae Multifamily Partner Risk Management
partner_risk_management@fanniemae.com

Fannie Mae may require additional information, documentation, and legal opinions to process a transfer request.

B. Transfer Fee and Third Party Costs

Fannie Mae charges a transfer fee for all Lender-initiated servicing transfers, including any transaction (e.g., merger, acquisition, restructuring, change in ownership, change in Control) that results in the servicing rights for any Mortgage Loan being held either by a different legal entity, or by the same legal entity but with different beneficial ownership.

Fannie Mae determines the amount of the transfer fee after considering the specific facts, circumstances, and issues presented by the proposed servicing transfer. The transfer fee does not cover any third party costs (e.g., outside accounting or legal fees, expenses, etc.) incurred by Fannie Mae in connection with the transaction; such fees will be borne by and billed to the Lender separately. If the transaction closes, the transfer fee and any third party costs will be payable at closing. If the transaction does not close, the Lender will remain responsible for payment of the transfer fee and any third party costs incurred by Fannie Mae in connection with the proposed transfer.

C. Transferee Servicing Fee

Any transferee Lender approved by Fannie Mae will receive the same Servicing Fee that the transferor Lender received for the transferred Mortgage Loan. Fannie Mae will not pay the transferor Lender a termination fee for a Lender-initiated servicing transfer.

D. Change of Control Approval and Fee

The Lender must provide Fannie Mae with sufficient advance notice of any change in the ownership, Control, or organizational structure of the Lender to enable Fannie Mae to conduct due diligence to determine whether Fannie Mae’s approval should be granted, as required under the Lender Contract. Approval will be granted or withheld in Fannie Mae’s sole discretion. If
Fannie Mae approves a proposed change of Control, Fannie Mae shall have discretion to charge a change of Control fee or a credit rating fee (or both) in addition to any transfer fee that may also be due. The credit rating fee will compensate Fannie Mae for the increased risk associated with substitution of an unrated Lender, or a Lender whose credit rating is lower than the rating of the Lender or its corporate guarantor prior to the transfer or change of Control. The amount of the change of Control fee or credit rating fee will be determined after analysis of the surviving entity.

Section 307.03. Fannie Mae-Initiated Servicing Transfers

Fannie Mae may require a servicing transfer for one or more Mortgage Loans in the Lender's servicing portfolio. For example, a Fannie Mae-initiated servicing transfer may be required after breach of the Lender Contract if Fannie Mae believes that the Lender is not protecting Fannie Mae's interests adequately, or if Fannie Mae determines that the Lender should not continue to service a Conflict Mortgage Loan.

A. Notice of Proposed Transfer

Fannie Mae may give the Lender advance notice of the servicing transfer, but reserves the right to require a servicing transfer without advance notice unless such notice is required expressly by the Lender Contract.

B. Identification and Approval of Proposed Transferee

If advance notice of the servicing transfer is given, but Fannie Mae does not specify a required transferee, Fannie Mae will specify a date by which the Lender must identify a transferee acceptable to Fannie Mae. The transferee must be approved by Fannie Mae, but Fannie Mae will not unreasonably withhold such approval. The servicing transfer must occur within 60 days after Fannie Mae’s original notice of the transfer requirement.

If the Lender cannot find a transferee acceptable to Fannie Mae within the stipulated time period, Fannie Mae may initiate a servicing transfer to a Lender of Fannie Mae’s choice, or may assume the servicing functions itself.

C. Loss Sharing Obligation and Other Obligations

Fannie Mae reserves the right to continue to require the transferor to meet any warranties, loss sharing or other obligations associated with each transferred Mortgage Loan. Alternatively, Fannie Mae may require the transferee to assume any or all warranties, loss sharing, or other obligations that were made in connection with the transferred Mortgage Loan, in which case, the transferee shall succeed to and assume the transferor’s obligations, rights, and servicing compensation for the servicing of the subject Mortgage Loan.
D. Transferee Servicing Fee

If the transferee assumes all warranties, loss sharing, or other obligations made to Fannie Mae in connection with the transferred Mortgage Loans, the transferee shall receive the same Servicing Fee that the transferor received for the transferred Mortgage Loan. If the transferor retains any of its liabilities as to any warranties, loss sharing, or other obligations associated with the transferred portfolio, then the transferor, the transferee, and Fannie Mae will mutually determine the portion of the Servicing Fee the transferor may receive as reasonable compensation for the retained risk, and the transferee shall be entitled to any remaining portion of the Servicing Fee. In no event shall a servicing transfer increase the aggregate Servicing Fee paid by Fannie Mae for any Mortgage Loan.

E. Sale of Servicing Proceeds

If the Lender identifies a transferee that is acceptable to Fannie Mae, the Lender is entitled to the proceeds of the sale of servicing, and will bear all costs and expenses related to the sale and transfer of servicing.

If the Lender fails to identify a transferee acceptable to Fannie Mae within the stipulated time period, and Fannie Mae engages a transferee, Fannie Mae shall have no obligation to pay the Lender any proceeds from the sale or transfer of servicing rights, but the Lender will bear all costs and expenses related to the sale and transfer of servicing.

F. Transfer Fee

Fannie Mae does not charge a transfer fee for Fannie Mae-initiated servicing transfers.

G. Termination Fee

If the servicing transfer is attributable to a breach by the Lender of its obligations under this Guide or the Lender Contract, or relates to a Conflict Mortgage Loan, Fannie Mae will not pay the transferor a termination fee. If the servicing transfer is otherwise required by Fannie Mae, but the Lender has not failed to perform its obligations, Fannie Mae will pay the transferor a termination fee calculated as provided in Section 308.02.B. of this Chapter, less a transfer fee equal to the greater of (i) $500, or (ii) 1/100 of 1% (i.e., 0.01%) of the unpaid principal balance of each performing Mortgage Loan transferred.

Section 307.04. Refund of Fee

Any refundable fee charged for a transferred Mortgage Loan that has not been refunded as of the date of the servicing transfer shall be refunded to the transferee Servicer upon satisfaction of all conditions to such refund, unless the transfer documents approved by Fannie Mae specify otherwise.
Section 308. Terminations (08/24/15)

Section 308.01. Lender Initiated Termination

A. Notice of Proposed Termination

If a Lender intends to terminate its Fannie Mae selling and servicing authority, then at least 90 days before the proposed termination date the Lender must give written notice of the decision to Multifamily Operations and to Fannie Mae Multifamily Partner Risk Management at the following addresses:

Multifamily Operations
multifamily_lender_oversight_grp@fanniemae.com

Fannie Mae Multifamily Partner Risk Management
partner_risk_management@fanniemae.com

B. Termination of Both Selling and Servicing Authority

The Lender may not terminate its servicing authority without also terminating its selling authority, if any. A Lender intending to terminate its selling and servicing authority must:

- provide written notice of the proposed termination;
- obtain Fannie Mae’s prior written consent; and
- fulfill all of its outstanding contractual obligations prior to the termination date, unless Fannie Mae approves otherwise. This requirement includes the delivery to Fannie Mae of all Mortgage Loans under all mandatory delivery commitments (whether Fannie Mae Commitments or other commitments) taken by the Lender prior to the date of its written notice of termination, and the transfer to a transferee acceptable to Fannie Mae of all servicing, loss sharing, and other obligations on any current portfolio. No additional Commitments may be taken by the Lender after the date of its notice of intent to terminate.

C. Termination of Selling Authority Only

With Fannie Mae approval, the Lender may terminate its selling authority and continue to service its Fannie Mae portfolio as long as the Lender meets all continuing eligibility requirements. In such event, the Lender must deliver all Mortgage Loans as required under all Commitments taken by the Lender prior to the date of its written notice of termination, and must continue to meet all servicing, loss sharing, and other obligations associated with the Lender’s Fannie Mae servicing portfolio. No additional Commitments may be taken by the Lender after the date of its notice of intent to terminate.
D. No Termination Fee Payable

Fannie Mae will not pay the Lender a termination fee for a Lender-initiated termination. Fannie Mae charges a transfer fee for any servicing transfer resulting from a Lender-initiated termination.

E. Effective Date

The effective date of any Lender-initiated termination is the earlier of:

- the last day of the third calendar month following the month in which notice is given; or
- the date on which servicing responsibilities are assumed by a successor servicer.

Section 308.02 Termination or Suspension by Fannie Mae

Fannie Mae may suspend or terminate either or both of the Lender's selling or servicing authority in accordance with the provisions of this Guide and the Lender Contract.

A. Termination Without Cause

Fannie Mae may terminate a Lender’s servicing rights for any reason, or no reason, by giving the Lender notice of the termination. If Fannie Mae provides such notification, the servicing provisions of the Lender Contract, and any authority derived from this Guide, shall terminate automatically on the 30th day following the day Fannie Mae’s notice is given.

B. Termination Fee for Termination Without Cause

If the termination is not the result of a breach by the Lender of its obligations contained in this Guide or the Lender Contract, Fannie Mae will pay the Lender a lump-sum termination fee equal to twice the Lender’s annualized servicing compensation for each terminated Mortgage Loan, multiplied by the unpaid principal balance of each performing Mortgage Loan as of that date.

For purposes of determining the termination fee:

- The Lender’s servicing compensation consists of the Servicing Fee at the applicable Servicing Fee Rate, plus any previously agreed upon excess yield that the Lender is permitted to retain on the applicable Mortgage Loan; and
- “Servicing Fee Rate” means the rate of the Servicing Fee for the servicing of the Mortgage Loan, expressed as an annualized percentage.
C. Termination For Cause

If the Lender breaches any provision of its Lender Contract or this Guide, Fannie Mae may terminate the Lender’s servicing of one or more, or all, Mortgage Loans by giving the Lender notice of the termination. Lender’s failure to meet Fannie Mae eligibility requirements for servicing every Fannie Mae Mortgage Loan will constitute “cause,” even if the Lender’s staff, facilities, controls, and systems are sufficient to service substantially all Mortgage Loans. If Fannie Mae provides such notification, the servicing provisions of the Lender Contract, and any authority derived from this Guide, shall terminate automatically and immediately as to the Mortgage Loans identified in the notice.

D. Termination Fee for Termination For Cause or Repurchase Resulting from Breach of Representation or Warranty

Fannie Mae will not pay the Lender a termination fee if:

- the termination is the result of a breach by the Lender of its obligations contained in this Guide or the Lender Contract; or
- the Mortgage Loan is repurchased by the Lender because of a Lender breach of any of its representations or warranties.

Section 308.03. General Criteria for Termination Fees

If Fannie Mae changes the amount of the termination fee, any such change will not affect Mortgage Loans that were purchased, or that Fannie Mae committed to purchase, prior to the date of the change. Fannie Mae’s tender of the termination fee to the Lender is complete compensation for each Mortgage Loan serviced by the Lender for which servicing is terminated. When Fannie Mae pays a termination fee, the Lender is not entitled to the proceeds of any sale of the servicing.

Section 308.04. Continuing Responsibilities and Liabilities

Each Lender responsibility, liability, and indemnity that exists before the termination of a Lender Contract shall continue to exist after termination unless Fannie Mae expressly releases the Lender in writing. The Lender’s liability continues whether the Lender Contract was terminated by the Lender or by Fannie Mae, and regardless of whether the Lender Contract was terminated for cause or without cause.

Section 309. Return of Files and Documents (08/25/14)

Upon any transfer of servicing or termination of servicing authority, whether Lender-initiated or otherwise, the Lender is obligated to send to Fannie Mae, or to the designated successor Lender or servicer, as directed by Fannie Mae, at Lender’s expense, all of the files, documents, and records pertaining to any affected Mortgage Loan.
Part II – Lender Contractual Relationship

Chapter 4 – Maintaining Financial Eligibility

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Chapter 4 – Maintaining Financial Eligibility

Section 401. Adequacy of Financial Condition (08/25/14)

The Lender's financial condition (e.g., capitalization, liquidity, etc.) must remain acceptable to Fannie Mae, in its sole discretion and judgment. All DUS Lenders, and other approved Multifamily Lenders who participate in loss sharing, must have sufficient financial strength to support the loss sharing, servicing, and other contractual obligations that the Lender assumes under its Lender Contract. In addition, other approved non-recourse businesses conducted by the DUS Lender, as well as corporate debt and debt service obligations, must not jeopardize the overall financial condition of the Lender. The DUS Capital Standards are designed to ensure the Lender’s ability to meet loss sharing, servicing, and other contractual obligations to Fannie Mae.

Fannie Mae will assess the adequacy of the Lender's financial condition periodically. If Fannie Mae determines that the Lender has inadequate financial capacity, capitalization, or liquidity to support its existing, projected, or new loss sharing obligations or other duties, Fannie Mae reserves the right to:

- limit or suspend the Lender's selling authority;
- terminate the Lender’s servicing authority;
- adjust the Lender’s loss sharing authority; and
- require a transfer of the servicing for some or all of the Lender's portfolio.

Section 402. Maintaining Eligibility (08/25/14)

Each DUS Lender must maintain financial eligibility by complying with the DUS Capital Standards and the other requirements set forth in this Chapter and in the DUS Capital Calculation Requirements (Form 4165). Each Multifamily Lender must maintain financial eligibility by complying with any capital or liquidity requirements set forth in the Lender Contract (which may require compliance with some or all of the standards or requirements of this Chapter). Lenders that fail to comply continuously with the applicable financial eligibility requirements, including all notification and reporting requirements, may be subject to remedies available to Fannie Mae under this Guide or the Lender Contract.

Section 403. Compliance with DUS Capital Standards (08/24/15)

Each DUS Lender must comply with the DUS Capital Standards continuously, including meeting the following 5 requirements:

- the Lender must meet the Acceptable Lender Net Worth requirements;
the Lender must meet the Lender Liquidity Requirements;

- the stock, partner or member interests, and other ownership rights in the Lender must be unencumbered;

- the Lender’s Fannie Mae Custodial Accounts must be unencumbered; and

- the Lender’s Mortgage Servicing Rights (“MSR”) and any income derived therefrom must be unencumbered except as provided in Part II, Section 512.

Section 403.01. Acceptable Lender Net Worth Requirements

A. General

An applicant seeking approval by Fannie Mae, and a Lender seeking to maintain its approval, must meet the Acceptable Lender Net Worth requirements. Fannie Mae may require certain applicants and existing Lenders (e.g., a Lender that is projected to experience greater than expected credit losses) to maintain a higher Acceptable Lender Net Worth. Minimum Acceptable Net Worth is determined as provided in the DUS Capital Calculation Requirements (Form 4165).

B. Adjustments to Acceptable Lender Net Worth Requirements

Fannie Mae may adjust the Acceptable Lender Net Worth requirements, at its discretion:

- to reflect significant changes in economic or market conditions;

- on a case-by-case basis, when the condition of a particular Lender’s Fannie Mae portfolio appears to warrant an adjustment; or

- if the Lender or its parent is rated investment grade and complies with the DUS Capital Calculation Requirements (Form 4165).

- for any other reason that Fannie Mae deems appropriate.

Section 403.02. Lender Liquidity Requirements

Fannie Mae’s assessment of the Lender’s financial condition considers the quality and liquidity of the assets comprising its Acceptable Lender Net Worth. The sufficiency of the Lender’s liquidity will be evaluated in relation to the nature of its business activities and liabilities.

The “Lender Liquidity Requirement” is the minimum amount of liquid assets that the Lender must maintain in 2 liquidity categories (Operational Liquidity and Restricted Liquidity), as defined below. Fannie Mae may require certain applicants and existing approved Lenders (e.g., a Lender that is projected to experience cash outflows in excess of available liquidity) to maintain additional liquidity. Accordingly, Fannie Mae may adjust the formula, on a case-by-case basis, when the condition of a particular Lender's Fannie Mae portfolio warrants an
adjustment. If such an adjustment is made, the Lender must fund the additional amount required by Fannie Mae.

A. Operational Liquidity

The Lender must have an acceptable amount of liquid assets available when a Mortgage Loan is sold to Fannie Mae. These assets (collectively, “Operational Liquidity”) must be on balance sheet and accessible by the Lender to cover advancing obligations and losses, and to provide basic working capital. The Lender’s Operational Liquidity Requirement is determined as provided in the DUS Capital Calculation Requirements (Form 4165).

B. Operational Liquidity Funding Rate

When a Mortgage Loan is sold to Fannie Mae, the Lender must fund the full amount of the resulting increase in the Lender’s Operational Liquidity Requirement.

C. Operational Liquidity Products Covered

The Operational Liquidity Requirement applies to all Mortgage Loans.

D. Operational Liquidity Allowable Assets

At a minimum, at least $500,000 of the DUS Lender’s assets (in addition to the Restricted Liquidity Requirement under the Lender Contract) must be liquid (e.g., cash, readily marketable securities, or short term notes acceptable to Fannie Mae, but excluding Borrower good faith deposits). The remaining Operational Liquidity must be in the following forms:

- cash;
- Reserve Permitted Investments;
- assets (equity) in excess of the minimum requirements of the Lender’s warehouse line provider (for example, if the Lender pledged $30 million in assets for its warehouse line, but the warehouse provider only requires $25 million, the Lender may apply the $5 million excess assets to its Operational Liquidity Requirement);
- Principal and interest advances, if recoverable; or
- Restricted Liquidity held by Fannie Mae’s Collateral Custodian in excess of the Restricted Liquidity Requirement.
Section 403.03 Operational Liquidity, Use Restrictions and Replenishment

A. Using Operational Liquidity to Fund a Credit Loss

Subject to the requirements in Section 403.03, a Lender may use its Operational Liquidity to fund the Lender’s share of a credit loss from a Mortgage Loan. Restricted Liquidity cannot be used to fund credit losses.

B. Replenishing Operational Liquidity

If using Operational Liquidity to fund the proposed expenditure would render the Lender non-compliant with the DUS Capital Standards, the Lender must seek Fannie Mae’s prior written approval to use its Operational Liquidity.

The Lender must notify Fannie Mae within 5 Business Days if a payment will trigger interim non-compliance with the Operational Liquidity Requirements; and, if so, how the Lender will replenish its Operational Liquidity within 90 days after the payment to restore compliance with the Operational Liquidity Requirement.

If the Lender uses its Operational Liquidity to fund a loss:

- the Lender has 90 calendar days following the date of the loss payment within which to replenish its Operational Liquidity; and
- the Lender must provide evidence of such replenishment to Fannie Mae within 15 calendar days after the month-end following the expiration of the 90 calendar day replenishment period. The evidence must include:
  - the Lender’s balance sheet for the month-end after the expiration of the 90 calendar day replenishment period;
  - the calculation of the Lender’s Operational Liquidity Requirements; and
  - the calculations evidencing compliance with the Operational Liquidity Requirements.

Fannie Mae reserves the right to request interim reports if the increase in losses is material to the Lender, and will provide the Lender 5 Business Days notice if it intends to impose interim reporting requirements.

Section 403.04. Restricted Liquidity Requirements

A. General
The Restricted Liquidity Requirement applies to all Mortgage Loans that are subject to DUS loss sharing. The Lender’s “Aggregate Restricted Liquidity Requirement” is the minimum amount of Acceptable Reserve Collateral that the Lender must maintain in its Restricted Liquidity Account (the “Restricted Liquidity Reserve”) and is equal to the sum of the Lender’s:

- Base Restricted Liquidity Amount; and
- Risk-Based Restricted Liquidity Amount.

All Lenders are required to execute and deliver to Fannie Mae a Lender Reserve Agreement among the Lender, Fannie Mae, and the Collateral Custodian in order to establish a Restricted Liquidity Account. The Restricted Liquidity Reserve is held by the Collateral Custodian, as provided in the Lender Contract, the Guide, and in the DUS Capital Calculation Requirements (Form 4165). The Lender must maintain the Restricted Liquidity Account continuously even if the Lender is not required to maintain any Base Restricted Liquidity Requirement or Risk-Based Restricted Liquidity Amounts.

B. **Base Restricted Liquidity Amount**

The Lender’s Base Restricted Liquidity Amount is determined as provided in the DUS Capital Calculation Requirements (Form 4165).

C. **Risk-Based Restricted Liquidity Amount**

The Lender’s Risk-Based Restricted Liquidity Amount (and therefore its Aggregate Restricted Liquidity Requirement) increases as it sells to Fannie Mae Mortgage Loans that are subject to loss sharing, and the Lender is responsible for ensuring that it has the required amount of Acceptable Reserve Collateral in its Restricted Liquidity Account to cover any increases in its Risk-Based Restricted Liquidity Requirement. The Risk-Based Restricted Liquidity Amount is determined as provided in the DUS Capital Calculation Requirements (Form 4165).

D. **Restricted Liquidity Reserve**

Each Lender whose Lender Contract requires the funding of a Restricted Liquidity Reserve must deliver Acceptable Reserve Collateral to the Collateral Custodian pursuant to the Lender Reserve Agreement.

E. **Fannie Mae Collateral Custodian**

The Collateral Custodian acts as Fannie Mae's collateral agent and bailee under the terms and conditions of the Lender Reserve Agreement. The Collateral Custodian may not be a Lender Affiliate.

The Collateral Custodian holds all Acceptable Reserve Collateral delivered by the Lender, and performs other administrative functions specified in the Lender Contract.
Collateral Custodian will bill each Lender periodically for fees charged to that Lender by the Collateral Custodian for performing such administrative functions.

The Collateral Custodian will provide the Lender with periodic status and Acceptable Reserve Collateral valuation reports relating to its Restricted Liquidity Requirement. If the Collateral Custodian determines that the amount of the Acceptable Reserve Collateral held by the Collateral Custodian is below the Lender's Restricted Liquidity Requirement, the Collateral Custodian will initiate a call for additional Acceptable Reserve Collateral. When such a call is made, the Lender must deliver the additional Acceptable Reserve Collateral by the applicable deadline, as set forth in the Lender Contract. If the Collateral Custodian determines that the amount of Acceptable Reserve Collateral held by the Collateral Custodian exceeds the Restricted Liquidity Requirement, the Lender may request a reduction of the amount of Acceptable Reserve Collateral held by the Collateral Custodian to an amount equal to the Restricted Liquidity Requirement.

F. Letters of Credit as Acceptable Reserve Collateral for Restricted Liquidity

For any Letter of Credit to be included as Acceptable Reserve Collateral, the Lender must obtain Fannie Mae’s written consent prior to delivering any Letter of Credit as required by Part IIIA, Section 207.

G. Restricted Liquidity Funding

When a Mortgage Loan is sold to Fannie Mae, the Lender must deliver Acceptable Reserve Collateral to the Fannie Mae Collateral Custodian in one of the following 2 ways.

1. Option 1: Minimum Funding

The increase in the Lender’s Restricted Liquidity Requirement attributable to the new Mortgage Loan delivery may be paid in 48 equal installments of Acceptable Reserve Collateral, with the first installment delivered immediately and subsequent installments delivered on the 30th day of each of the following 47 months.

The increase in the Lender's Restricted Liquidity Requirement is calculated based on the unpaid principal balance of the Mortgage Loan at the end of each month. The Lender may “overfund” the Restricted Liquidity Account (i.e., deliver Acceptable Reserve Collateral in excess of the Aggregate Restricted Liquidity Requirement).

2. Option 2: Full Funding

The Lender immediately delivers Acceptable Reserve Collateral to satisfy the full amount of the increase in the Restricted Liquidity Requirement attributable to the new Mortgage Loan delivery.
H. Additional Restricted Liquidity Funding Provisions

Notwithstanding the Lender’s selected option of Restricted Liquidity funding, Fannie Mae may require, in its sole discretion, the Lender to fully fund its Restricted Liquidity Account immediately in accordance with Option 2.

The Lender is responsible for ensuring that it has delivered Acceptable Reserve Collateral to cover any increases in its Restricted Liquidity Requirement that result from new Mortgage Loan deliveries. The Lender has the required amount of Acceptable Reserve Collateral when:

- for Option 2 funding - the Lender delivers additional Acceptable Reserve Collateral in the full amount of the increase; or
- for Option 1 funding - the Lender has delivered all installments of additional Acceptable Reserve Collateral required to have been delivered on or before that date.

I. Delivery of Acceptable Reserve Collateral

The Lender must make the initial delivery of Acceptable Reserve Collateral prior to or concurrently with the execution of the Lender Reserve Agreement by the Lender and Fannie Mae. Subsequently, Acceptable Reserve Collateral may be delivered in accordance with the Lender Reserve Agreement as additional, substitute, or replacement Acceptable Reserve Collateral. The Lender must deliver the following to the Collateral Custodian:

1. When Lender Reserve Agreement Executed

Upon execution by the Lender and delivery to the Collateral Custodian of the Lender Reserve Agreement, the Lender must furnish:

- an opinion of counsel (which may be rendered by the Lender’s “in-house” counsel) substantially in the form of the Form of Opinion of Lender’s Counsel (Reserve Agreement) (Form 4652);
- an electronic blackline comparing the opinion against the language required by the Form of Opinion of Lender’s Counsel (Reserve Agreement) (Form 4652); and
- a Certificate of Authorized Representative substantially in the form of Exhibit A of the Lender Reserve Agreement.

2. On Any Reserve Collateral Delivery Date

On each Reserve Collateral Delivery Date, the Lender must deliver the following to the Collateral Custodian:
an acceptable Letter of Credit or an amendment to an existing acceptable Letter of Credit;

immediately available funds or Reserve Permitted Investments;

documentation evidencing the transfer of Acceptable Reserve Collateral;

written instructions for investing in Reserve Permitted Investments in accordance with the Reserve Investment Guidelines;

a Letter of Acceptable Collateral substantially in the form of Exhibit B to the Lender Reserve Agreement; and

an opinion of counsel substantially in the form of the Form of Opinion of Counsel to Issuer of Letter of Credit (Form 4653), in the case of an acceptable Letter of Credit, or substantially in the form of the Form of Opinion of Counsel for Lender (Upon Delivery and Pledge of a Permitted Investment or Funds with Instructions to Invest in Permitted Investments) (Form 4654), in the case of Reserve Permitted Investments.

3. **Prior to Initial Reserve Collateral Delivery Date**

At least 5 Business Days prior to the anticipated initial Reserve Collateral Delivery Date of cash or Reserve Permitted Investments, the Lender must:

- notify the Collateral Custodian of the Lender’s intent to deliver Acceptable Reserve Collateral;

- deliver to Fannie Mae, at the request of Collateral Custodian or Fannie Mae, financing statements duly authorized by the Lender with the description of the cash or Reserve Permitted Investments as provided in the Form of Description of Collateral for Financing Statements (Form 4656); and

- deliver a letter from Lender’s counsel (which may be rendered by the Lender’s “in-house” counsel) setting forth the jurisdictions and offices (including addresses) in which such financing statements should be filed to perfect Fannie Mae’s interest in the Acceptable Reserve Collateral. The counsel’s opinion must be substantially in the form of the Form of Opinion of Counsel for Lender (Upon Delivery and Pledge of a Permitted Investment or Funds with Instructions to Invest in Permitted Investments) (Form 4654).

No later than the Business Day preceding the anticipated initial Reserve Collateral Delivery Date of cash or Reserve Permitted Investments, the Collateral Custodian will deliver to Fannie Mae and the Lender’s counsel an opinion of Collateral Custodian’s counsel substantially in the form provided in the Lender Reserve Agreement as Exhibit G.
The duly authorized financing statements, if required, and Lender’s counsel letter must be delivered to counsel to Fannie Mae. The Lender shall reimburse Fannie Mae for costs and expenses incurred in connection with the preparation, review, and filing of any financing statements.

4. Amendments of Acceptable Letters of Credit

If an acceptable Letter of Credit previously delivered to the Collateral Custodian is amended, concurrent with such amendment the Lender must deliver an opinion of counsel to the Collateral Custodian, substantially in the form of the Form of Opinion of Counsel of Issuer of Letter of Credit Regarding Amendment of Letter of Credit (and if Applicable, Confirmation of Letter of Credit) (Form 4655), opining on the validity of the amendment and the enforceability against the issuer of the Letter of Credit, as amended.

5. Delivery Requirements for Opinions of Counsel

The Lender’s Restricted Liquidity Requirement will not be satisfied until any corresponding opinion required by the Lender Reserve Agreement is delivered and approved. Fannie Mae may engage outside legal counsel to review any proposed counsel opinion that deviates from Fannie Mae’s specified form, and the opinion will not be accepted without the Lender’s payment of all costs and expenses incurred by Fannie Mae and the Collateral Custodian to review a non-conforming opinion.

J. Calculation of the Aggregate Restricted Liquidity Requirement by Collateral Custodian

As of each monthly Reserve Valuation Date, or as otherwise required by Fannie Mae, the Collateral Custodian will rely on information provided by Fannie Mae to determine the Aggregate Restricted Liquidity Requirement in accordance with the terms of this Chapter and the Lender Reserve Agreement.

Section 403.05. Investment Guidelines for Reserve Permitted Investments

The Lender’s Restricted Liquidity may be held in the form of cash or invested. If the Lender directs the Collateral Custodian to invest the Lender’s Restricted Liquidity as permitted under the Reserve Agreement, the Lender may designate 1 or more of the following “Reserve Permitted Investments”:

- US Treasuries or other U.S. domestic government securities of any maturity, provided that the securities must be rated AAA and the value allocated to the security must be discounted by 3%;
Fannie Mae, Freddie Mac, and Ginnie Mae agency MBS securities (single family or multifamily), provided that the value allocated to the securities must be discounted by 4%;

- pre-approved money market funds, with the ability for other money market funds with an investment objective that is limited to US Treasuries or other U.S. domestic government securities rated AAA, provided that the value allocated to the securities must be discounted by 5%; or

- any other investment approved in writing by Fannie Mae.

No Reserve Permitted Investment may be made in term obligations issued or guaranteed by the Collateral Custodian that have an original maturity greater than 1 Business Day as of the date of delivery by the Lender to, or purchase by, the Collateral Custodian pursuant to the Lender Reserve Agreement.

If the Collateral Custodian does not receive directions from Fannie Mae or the Lender regarding the investment of uninvested funds in the Collateral Account, the Collateral Custodian shall invest such amounts in the following Reserve Permitted Investments:

- overnight Federal Funds; or

- if sale of overnight Federal Funds is not reasonably available to Collateral Custodian, overnight time or demand deposits of Collateral Custodian otherwise described in bullet 4 of the definition of Reserve Permitted Investments, if available.

Section 403.06. Re-Evaluation of the DUS Capital Standard

Fannie Mae generally reassesses the DUS Capital Standards no less frequently than every 2 years. Key factors in this evaluation include:

- updated loss model projections; and

- Property financial information.

Following the re-evaluation, any excess Restricted Liquidity will be refunded promptly following the calculation of such excess, and shortages must be funded within the deadlines set by Fannie Mae when the changes are implemented.

Section 403.07 Restricted Liquidity - Use and Restrictions; Replenishment

Once a Lender accumulates Restricted Liquidity equal to at least 35 basis points of the Lender’s entire Mortgage Loan portfolio (the “Restricted Liquidity Floor”), that Lender will have the right to obtain a distribution of Restricted Liquidity funds from the Collateral Custodian, temporarily and only once per calendar year, in an amount not to exceed 50% of the difference
between the Lender’s total Restricted Liquidity Amount minus the amount of the Restricted Liquidity Floor. A Lender that withdraws funds from the Lender’s Restricted Liquidity account pursuant to this Section must replenish the withdrawn funds in full by deposits into the account held by the Collateral Custodian for the account of the Lender within 12 months after the withdrawal, and otherwise must remain in continuous compliance with the Restricted Liquidity Requirement of the Capital Standard.

This feature is illustrated in the table below for a Lender with an assumed (i) aggregate Mortgage Loan portfolio of $3.5 billion, and (ii) a weighted average Restricted Liquidity equal to 50 basis points of its Mortgage Loan portfolio.

### Calculation of Monies at U.S. Bank Available for Withdrawal

<table>
<thead>
<tr>
<th>Weighted Average Life of Portfolio</th>
<th>Base Restricted Liquidity</th>
<th>New Restricted Liquidity</th>
<th>Monies Available for Withdrawal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Charge in Bps</td>
<td>Cumulative Accretion</td>
<td>Charge in Bps</td>
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<td></td>
<td>Bps</td>
<td>$</td>
<td>Bps</td>
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<tr>
<td>15</td>
<td>35</td>
<td>10.94</td>
<td>50</td>
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<tr>
<td>24</td>
<td>35</td>
<td>17.50</td>
<td>50</td>
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<tr>
<td>36</td>
<td>35</td>
<td>26.25</td>
<td>50</td>
</tr>
<tr>
<td>45</td>
<td>35</td>
<td>32.81</td>
<td>50</td>
</tr>
<tr>
<td>48</td>
<td>35</td>
<td>35.00</td>
<td>50</td>
</tr>
</tbody>
</table>

### Section 404. Annual Reporting Requirements – All Lenders (08/24/15)

**Section 404.01. Required Submissions**

By March 31st of each year, each Lender is required to submit the following documentation.

<table>
<thead>
<tr>
<th>WHO MUST SUBMIT</th>
<th>WHAT IS REQUIRED</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Lenders servicing both Fannie Mae single family and multifamily Mortgage Loans.</td>
<td>Lender Record Information Form (Form 582). If an electronic copy is submitted, a signed certification also must be forwarded.</td>
</tr>
<tr>
<td>All Lenders servicing Fannie Mae multifamily Mortgage Loans.</td>
<td>Approved Multifamily Lender Certification Information (Form 4637). If an electronic copy is submitted, a signed certification also must be forwarded.</td>
</tr>
<tr>
<td>WHO MUST SUBMIT</td>
<td>WHAT IS REQUIRED</td>
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<tr>
<td>Lenders that have experienced any changes in ownership during the prior year,</td>
<td>Authorization for Verification of Credit and Business References (Form 1001).</td>
</tr>
<tr>
<td>including changes in:</td>
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<tr>
<td>• the Lender's principal officers, partners or members;</td>
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<tr>
<td>• other owners holding a 5% or greater ownership interest; or</td>
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<tr>
<td>• acquisition of any direct or indirect ownership by a non-U.S. citizen or</td>
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<tr>
<td>entity (unless the interest acquired constitutes ownership in a publicly-</td>
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<tr>
<td>traded entity, in which event only an acquisition of 5% or more must be</td>
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<tr>
<td>reported).</td>
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</tr>
<tr>
<td>All Lenders</td>
<td>Audited financial statements prepared in accordance with GAAP, and certified</td>
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<tr>
<td></td>
<td>without adverse reference to going concern value and without qualification by an</td>
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<td></td>
<td>independent auditor of recognized standing.</td>
</tr>
<tr>
<td>All Lenders</td>
<td>Completed and signed Fannie Mae information request form (to be provided by</td>
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<tr>
<td></td>
<td>Fannie Mae).</td>
</tr>
<tr>
<td>All Lenders</td>
<td>Copies of fidelity bonds, surety bonds and errors and omissions insurance policy</td>
</tr>
<tr>
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<td>certificates.</td>
</tr>
<tr>
<td>All Lenders</td>
<td>Any new, updated or amended warehouse or other credit agreement entered into by</td>
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<tr>
<td></td>
<td>the Lender.</td>
</tr>
<tr>
<td>All Lenders</td>
<td>Reporting of Delinquency Advances.</td>
</tr>
<tr>
<td>All Lenders</td>
<td>Reporting of withdrawals and replenishments of Restricted Liquidity at Collateral</td>
</tr>
<tr>
<td></td>
<td>Custodian.</td>
</tr>
<tr>
<td>All Lenders whose obligations to Fannie Mae are guaranteed.</td>
<td>Guarantor’s financial statements and other information as required by the terms</td>
</tr>
<tr>
<td></td>
<td>of the guaranty.</td>
</tr>
<tr>
<td>All Lenders</td>
<td>Any other reporting requirements of this Guide not included above.</td>
</tr>
</tbody>
</table>
Section 404.02. Financial Statement Requirements

A. Accountant Opinion

The Lender’s financial statements must be accompanied by an unqualified opinion of an independent public accountant, and must be consistent with the financial statements submitted by the Lender in previous years. If the Lender's financial statement is consolidated with that of its parent or holding company, the statement must provide enough detail about the Lender's financial status to allow Fannie Mae to review information about the Lender apart from its Lender Affiliates.

B. Contents of Financial Statements

The Lender’s annual financial statements must include the following:

- balance sheet;
- income statement;
- statement of changes in capital accounts;
- statement of cash flows; and
- all related notes.

If the Lender's financial statements and notes do not include:

- a breakdown of the specific types (by Mortgage Loan product) and amounts of the Lender's on-balance-sheet MSR,
- enough detail to permit Fannie Mae to determine how much of any on-balance-sheet loan loss reserve amount is available as a general Mortgage Loan loss reserve, or
- details of the terms of the Lender’s pledge of its assets as collateral for a Letter of Credit or for any other purpose,

then the Lender must submit a separate breakdown and disclosure, along with copies of relevant financing documents, in sufficient detail to permit Fannie Mae to understand each of the above.

C. Alternative for State- or Federally-Supervised Lenders

Any state- or federally-supervised Lender for which audited annual financial statements are not prepared may submit a copy of its latest regulatory financial report, provided the financial report is accompanied by a written certification that the Lender does not prepare audited annual financial statements, and that the financial report submitted to Fannie Mae is identical to the report submitted to the Lender's supervising authority.
D. Partnership Lenders and Guarantors

If the Lender is a partnership, Fannie Mae may require the Lender to submit audited financial statements for the Lender's general partners. If a Lender Affiliate or other entity guarantees performance by the Lender of any obligation to Fannie Mae, including its obligations under the Lender Reserve Agreement, Fannie Mae may require the Lender to submit audited financial statements for such guarantor.

Section 405. Quarterly Reporting Requirements – All Lenders (08/25/14)

Section 405.01. DUS Capital Standards Quarterly Compliance Report

Any Lender or Lender guarantor that is rated below AA- by Standard and Poor’s or Fitch, or Aa3 by Moody’s, must submit a quarterly report to Fannie Mae showing the Lender’s DUS Capital Standards calculation and whether or not the Lender is in compliance with the DUS Capital Standards. This information is due to Fannie Mae Multifamily Partner Risk Management within 45 calendar days after the end of each calendar quarter, although quarterly submissions are not required for the fourth calendar quarter. Any Lender or Lender guarantor that meets or exceeds the highest rating specified in Section II.C of the DUS Capital Calculation Requirements (Form 4165) is not required to perform this quarterly reporting.

Section 405.02. Financial Statements

Each Lender must submit the following information:

A. Quarterly Financial Information

Quarterly financial reports, prepared in accordance with GAAP, including:

- a balance sheet, detailing a breakout of amounts advanced for Delinquency Advances by:
  - Fannie Mae DUS portfolio; and
  - Fannie Mae non-DUS portfolio;
- a quarter-to-date and year-to-date income statement;
- a quarter-to-date and year-to-date statement of cash flows;
- a calculation and attestation of compliance with the DUS Capital Standards; and
- reporting of withdrawals from and replenishments of Restricted Liquidity.
B. **Breakdown of Mortgage Loan Servicing Rights**

Breakdown of MSR by:

- Fannie Mae DUS portfolio;
- Fannie Mae non-DUS portfolio; and
- non-Fannie Mae portfolio (e.g., Freddie Mac, FHA, etc.).

C. **Quarterly Portfolio Information**

Quarterly portfolio information:

- valuation methodology for MSR; and
- internal modified loss sharing policies, and any changes from the prior reporting period.

D. **Other Financial Reporting Requirements**

Each Lender must submit to Fannie Mae for review pursuant to Section 408 any new, updated, or amended warehouse or other credit agreements entered into by the Lender, and must submit any other documents or information that may be required under Section 509 or any other sections of this Guide not mentioned specifically above.

E. **Chief Financial Officer Certification and Disclosure**

A certification from the Lender’s Chief Financial Officer attesting to the following:

- the Lender is in compliance with the DUS Capital Standards;
- the Lender’s books and records are maintained in accordance with GAAP;
- the Lender received prior written approval from Fannie Mae Multifamily Partner Risk Management for any pledges since the most recent prior certification of Fannie Mae servicing income or company stock to secure activities not currently permitted in this Guide; and
- there has been no material organizational or personnel change since the most recent prior certification.

The Lender’s Chief Financial Officer must also disclose to Fannie Mae any:

- existing or new pledge of company stock or Fannie Mae servicing income; and
- non-Fannie Mae activity conducted by the Lender in the applicable reporting period.
Section 406. Address for Submissions (08/25/14)

All required submissions must be e-mailed to the Fannie Mae Multifamily Partner Risk Management contact and address provided to the Lender by Fannie Mae or sent to Fannie Mae at the following address.

Fannie Mae  
Multifamily Partner Risk Management  
Mail Stop 8H-610  
3900 Wisconsin Avenue, NW  
Washington, D.C. 20016

Section 407. Failure to Comply with DUS Capital Standards (08/25/14)

If the Lender is not in compliance with the DUS Capital Standards, the Lender must:

- notify Fannie Mae in writing within 5 Business Days after identifying the non-compliance; and
- submit a capital compliance transition plan within 30 calendar days after identifying the non-compliance.

The transition plan must address the proposed resolution of the non-compliance and the date by which the Lender plans to achieve full compliance. Submitted plans must be approved by Fannie Mae Multifamily Partner Risk Management. The Lender’s Restricted Liquidity Requirement may be increased or other conditions or remedies may be imposed in Fannie Mae’s sole discretion.

Section 408. Warehouse and Other Credit Agreements (08/24/15)

Section 408.01. Lender Certification Required

Unless the Lender certifies compliance with the requirements of this Section by delivering the Lender’s executed Certificate of Corporate Debt Compliance (Form 4202), Fannie Mae must approve the Lender’s warehouse and other credit agreements prior to execution to confirm to Fannie Mae’s sole satisfaction that the rights and remedies granted to secure the Lender’s obligations are consistent with the restrictions imposed by the Lender Contract and this Guide.
Section 408.02. Lender as Guarantor of Lender Affiliate’s Credit Agreement Obligations

Any credit agreement to which the Lender’s corporate parent or other Lender Affiliate is or will be a party must be submitted for prior Fannie Mae approval if the Lender will be a guarantor of the Lender Affiliate’s obligations under the credit agreement, or if the Lender Affiliate’s obligations will be secured by a pledge of the Lender Affiliate’s direct or indirect ownership interests in the Lender.

Section 408.03. Pledge of Income from Lender’s Mortgage Servicing Rights

Any pledge of the Lender’s income from MSR must comply with the restrictions set forth in Part II, Section 512. However, Fannie Mae will not approve any credit agreement or warehouse facility that provides for any of the following:

- pledge of the Lender’s Fannie Mae MSR;
- seizure of any Fannie Mae Mortgage Loan, or the servicing rights to that loan, by a servicer other than the Lender approved by Fannie Mae to service that Mortgage Loan;
- ownership of the Lender by a Person other than the owner approved by Fannie Mae;
- pledge of any interest in the Restricted Liquidity Reserve, Custodial Account(s), or any deposits therein, including principal, interest, tax and insurance escrows, or other amounts in respect of a Fannie Mae Mortgage Loan; or
- any notice, consent or other requirement that purports to alter, restrict, or otherwise modify the rights and obligations of the Lender or Fannie Mae under the Lender Contract or this Guide.

Section 408.04. Submission to Fannie Mae

The Lender must submit to Fannie Mae Multifamily Partner Risk Management draft warehouse and other credit agreements, as well as any substantive amendment that would modify any collateral definition, grant, or other material term, prior to entering into such agreements unless the Lender verifies compliance with all Fannie Mae debt requirements by delivering the Lender’s executed Certificate of Corporate Debt Compliance (Form 4202). If the Lender modifies the Form 4202 in any way, Fannie Mae may engage outside legal counsel, at the Lender’s expense, to review any proposed credit agreement, and approval will not be issued until the Lender has paid all costs and expenses incurred by Fannie Mae to review the credit agreement.
Section 409. Additional Requirements for Submission of the Mortgage Bankers Financial Reporting Form (08/24/15)

Each Lender, including those that are subsidiaries of federally-supervised financial institutions, must submit a Mortgage Bankers Financial Reporting Form (Form 1002) following the end of each calendar quarter. Each report must include quarterly information for the reporting period. A Lender that operates under an accounting cycle other than the standard calendar quarterly cycle is not required to change its accounting methodology, but such Lenders must ensure that the report submitted for each quarterly reporting period contains data for the full number of quarters required for that specific report. The schedule for any Lender whose fiscal year end does not coincide with the end of a calendar quarter is posted in the FAQ section of the WebMB website (www.mbfrf.org). The report for each of the first three quarters must be submitted within 30 days of the applicable quarter-end date (March 31, June 30, and September 30, respectively); the report for the fourth quarter must be submitted within 60 days of the December 31 quarter-end date.

The Mortgage Bankers Financial Reporting Form (Form 1002) consists of three major parts - a statement of condition, a statement of income, and additional information related to the Lender's operations. All three components must be submitted each quarter. A Lender that is a subsidiary of another firm must not consolidate its financial information with that of its parent company, even if the parent company has executed and delivered to Fannie Mae an express written guaranty of the Lender’s obligations to Fannie Mae. A Lender must consolidate its financial information with any of its subsidiary companies.

The Mortgage Bankers Financial Reporting Form (Form 1002) must be submitted in electronic format. To submit the form electronically via www.mbfrf.org using WebMB, the Lender must register on the www.mbfrf.com website by selecting “Request New Account” and completing a user profile to provide company identification data (including a unique password) and indicating whether the data should be made available for the Mortgage Bankers Association’s analysis.
Part II – Lender Contractual Relationship

Chapter 5 – Maintaining Business Eligibility

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Chapter 5 – Maintaining Business Eligibility

Section 501. Business Obligations (08/25/14)

The Lender Contract requires each Lender to perform its functions in a businesslike and ethical manner. The Lender Contract and this Guide are intended to ensure that the Lender’s interests align with those of Fannie Mae. Accordingly, each Lender is expected to remain cognizant of Fannie Mae’s interests as the eventual owner of each Mortgage Loan delivered to or serviced on behalf of Fannie Mae, as well as Fannie Mae’s intent that each Mortgage Loan will secure Fannie Mae MBS. Other Parts of this Guide discuss in detail Fannie Mae's specific requirements for doing business with Fannie Mae.

Section 502. Compliance with Laws (08/20/18)

Section 502.01. Compliance with All Laws

The Lender must comply with all applicable local, state, and Federal laws and regulations, as more specifically provided below or elsewhere in this Guide.

Section 502.02. FIRREA Compliance

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA") provides that an agreement with a federally insured depository institution cannot form the basis for a claim against a receiver of that institution, or the Federal Deposit Insurance Corporation, unless such agreement is:

- written;
- executed by the institution contemporaneously with the transaction;
- approved by the institution's board of directors and reflected in the board's minutes; and
- considered an official record of the institution from the time of its execution and continuing thereafter.

Each Lender is required to indicate on its annual Lender Record Information (Form 582), annual Multifamily Lender Update and Certification (Form 4637), or such other report or certification as may be required from time to time, whether it is a federally-insured depository institution (or whether such an institution is a Lender Affiliate). If the Lender is such an institution or such an institution is a Lender Affiliate, it also must provide certain representations with respect to its agreement with Fannie Mae regarding the sale to, and servicing for, Fannie Mae of Mortgage Loans. The Lender also may be required to provide certain FIRREA-related assurances or certifications on a Mortgage Loan-by-Mortgage Loan basis.
Section 502.03. Bank Secrecy Act Compliance

Fannie Mae is subject to the Bank Secrecy Act and its associated regulations ("BSA"), which requires Fannie Mae to establish policies and procedures designed to prevent Persons from using Fannie Mae’s products and services for money laundering, or for the funding of terrorist or criminal activities. To further this goal, and to ensure Fannie Mae’s compliance with the BSA, Fannie Mae has adopted an anti-money laundering ("AML") compliance program. Although a Lender might not otherwise be subject to the BSA, as a continuing condition of Fannie Mae’s approval to originate or service loans on behalf of Fannie Mae, each Lender is required to facilitate Fannie Mae’s compliance with the BSA by having in place or adopting controls for the purpose of identifying suspicious activities that may involve money laundering, fraud, terrorist financing, or other financial crimes, and also adopting procedures for reporting those suspicious activities to Fannie Mae.

If the Lender is subject to the AML provisions of the BSA, the Lender must comply with all applicable provisions of the BSA. If the Lender is not subject to the BSA, the Lender should adopt controls similar to those required by the AML provisions of the BSA. All policies, procedures or controls the Lender has in place to comply with the BSA and/or this Guide provision are referred to within the Guide as the “Lender AML Program”.

Section 502.04. Office of Foreign Assets Control

Each Lender must:

- establish and maintain an effective U.S. Treasury Department Office of Foreign Assets Control ("OFAC") compliance program;
- not deliver a Mortgage Loan for purchase by Fannie Mae in which the Borrower, Key Principal, or any Principal is on the Specially Designated Nationals list ("SDN List") maintained by OFAC; and
- notify Fannie Mae Ethics and Multifamily Loss Mitigation 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.

Any required notice to Fannie Mae must include:

- the Borrower name;
- Fannie Mae Loan Number;
- Servicer contact; and
- the Person on the SDN List.

Upon receipt of notice from the Lender, Fannie Mae will contact the Lender to discuss the SDN List match and any potential next steps.
Section 502.05. Fraud Reporting

The Lender must advise the Fannie Mae Mortgage Fraud Division promptly upon discovery of any case of:

- embezzlement or fraud in the Lender’s organization, even if Fannie Mae funds are not involved, and even if no loss has been incurred; or
- fraud on the part of the Lender, Borrower, Key Principal, or any Principal in connection with the underwriting, committing, delivery, funding, or servicing of any Mortgage Loan.

The Lender's report must indicate the total amount of any loss regardless of whether a claim was filed with an insurer.

Section 503. Reinsurance (08/25/14)

Section 503.01. Fannie Mae Approval Required

The Lender must receive Fannie Mae's written approval before insuring any of its loss sharing obligations or entering into any other agreement relating to the sharing or reduction of risk for any Mortgage Loan sold to Fannie Mae (other than an agreement that provides for recourse to a Borrower). Borrower guaranties or indemnifications of, or agreements to reimburse the Lender for the Lender's obligations to, Fannie Mae under the Lender Contract are prohibited.

Section 503.02. Catastrophic Risk Insurance Requirements

The Lender may obtain a catastrophic risk insurance policy, provided that the policy:

- is approved by Fannie Mae prior to placement;
- includes Fannie Mae as a loss payee;
- covers only catastrophic risk and does not relieve the Lender of any of its loss sharing obligations under the Lender Contract;
- is provided by:
  - an insurer with an A.M. Best financial strength rating of A- or greater and a financial size category of V or greater (which equates to an adjusted policyholder's surplus of $10-25 million);
  - an insurer with an A or better rating from Demotech, Inc., coupled with a policyholder's surplus of $10 million or greater;
  - an insurer with either a BBB qualified solvency ratio or a BBB or better claims-paying ability rating in Standard and Poor's Insurer Solvency
Review, or a BBB or better claims-paying ability rating in Standard and Poor's International Confidential Rating Service; or

- Lloyd's of London (if the credit rating information on the particular syndicate providing the coverage is acceptable to Fannie Mae); and

  - contains a minimum deductible provision(s) that is acceptable to Fannie Mae (e.g., the minimum deductible for California earthquake insurance is $250,000, or such other amount as Fannie Mae may require in any particular case).

Fannie Mae reserves the right to require, at any time, that the Lender modify or cancel any catastrophic risk insurance policy that Fannie Mae approves pursuant to this Section.

Section 504. Fidelity Bond and Errors and Omissions Insurance Policy Coverage (08/20/18)

Section 504.01. General Requirements

The Lender must maintain, at all times and at its own expense, blanket fidelity/surety bond and errors and omissions insurance coverage. These policies must insure the Lender against losses resulting from dishonest or fraudulent acts committed by:

- the Lender's employed personnel;
- any Outside Party or employee of such Outside Party that provides appraisal, legal, data processing, or other services for the Lender (including Lender Affiliates, if applicable); and
- any temporary contract employee or student intern.

Fannie Mae requires that the coverage protect Fannie Mae against dishonest or fraudulent acts committed by the Lender's principal owner.

If any officer of the Lender (or other Person for whom coverage is required) cannot be covered by the fidelity bond, then the Lender also must obtain a direct surety bond to cover any Person who cannot be covered by the fidelity bond.

Section 504.02. Acceptable Policies

A. Parent’s Fidelity Bond and Errors and Omissions Insurance Policy

A Lender that is a subsidiary of another institution may use its parent's fidelity/surety bond and errors and omissions insurance policy as long as the Lender is listed as an additional "Named Insured" under the bond or policy. The Lender must maintain its own coverage if there are any restrictions in the parent's coverage that would prevent the full amount of coverage Fannie Mae requires from being available at all times for the Lender's protection. If the parent's deductible amount
exceeds the maximum deductible that Fannie Mae would allow for the Lender's total servicing portfolio, the Lender must obtain a fidelity bond in its own name for an amount that is at least equal to the amount of the parent's deductible amount, with a separate deductible that is no higher than the maximum amount Fannie Mae allows for that Lender.

B. Blanket Bond Policy

Fannie Mae will accept coverage under a Blanket Bond Policy for corporate Lenders. Fannie Mae requires individual coverage if the Lender is a sole proprietorship or a partnership.

C. Lender Placed Policies

Fannie Mae requires that each Property be insured at all times during the life of the Mortgage Loan. Accordingly, the Lender must maintain a “lender placed” policy (also known as a “force placed” policy) that will provide required insurance coverage for any Property if no such coverage exists under another insurance policy (such as a mortgage impairment insurance policy).

Section 504.03. Proof of Insurer’s Agreement to Provide Notice

The Lender must provide Fannie Mae with proof that the insurer has agreed to notify Fannie Mae if any of the following occurs:

- the required coverage is cancelled or reduced for any reason;
- the insurer notifies the Lender that any type or amount of coverage will not be renewed;
- the insurer deletes the requirement to provide Fannie Mae with prior notice of the events listed in this Section 504.03; or
- any officers of the Lender organization are removed from the coverage.

Section 504.04. Required Coverage

A. Fidelity Bond Coverage

The Lender's fidelity bond coverage must be equal to a percentage of the total portfolio that the Lender services for itself and all other investors, including Fannie Mae. The amount of coverage is determined in accordance with the following:
Unpaid Principal Balance of All Mortgage Loans Serviced | Coverage Required
---|---
$100,000,000 or less | $300,000
$400,000,000 | plus 0.150% of the next
$500,000,000 | plus 0.125% of the next
$1,000,000,000 | plus 0.100% of any amount over

The policy's deductible clause may be for any amount up to the greater of $100,000 or 5% of the face amount of the fidelity bond. If the Lender does not meet the required fidelity bond coverage and/or deductible amounts, the Lender must send a written request, explaining the reason for the request and providing its most recent audited financial statements to its Fannie Mae Representative and to Fannie Mae Multifamily Partner Risk Management. Before approving the Lender's request, Fannie Mae will determine the acceptability of the Lender's financial position and performance in servicing its Fannie Mae multifamily portfolio, paying particular attention to Mortgage Loan accounting and delinquent Mortgage Loan servicing.

**B. Errors and Omissions Coverage**

The errors and omissions policy must, at least, protect the Lender against negligence and errors and omissions in:

- maintaining all required insurance coverages;
- maintaining FHA or conventional Mortgage Loan insurance;
- determining whether properties are located in Special Flood Hazard Areas;
- paying real estate taxes, leasehold payments, and any special assessments; and
- complying with reporting requirements of FHA or the Mortgage Loan insurers.

The errors and omissions policy must cover all Mortgage Loans serviced by the Lender and must be written on an occurrence basis. The minimum amount of errors and omissions coverage is the same as required for fidelity bonds. The deductible clause may be for any amount up to the greater of $100,000, or 5% of the face amount of the policy. If the Lender does not meet the required errors and omissions coverage and/or deductible amounts, the Lender must send a written request, explaining the reason for the request and providing its most recent audited financial statements to its Fannie Mae Representative and to Fannie Mae Multifamily Partner Risk Management. Before approving the Lender's request, Fannie Mae will determine the acceptability of the Lender's financial position and performance in servicing its Fannie Mae multifamily portfolio, paying particular attention to Mortgage Loan accounting and delinquent Mortgage Loan servicing.

The errors and omissions policy must provide for full liability on property (hazard) insurance losses, but may place sublimits on the insurer’s liability for the different types of losses. Sublimits of liability must equal at least 15% of the liability that applies for property insurance.
C. Acceptance of Mortgage Impairment Insurance

As long as Fannie Mae receives substantially the same coverage that an errors and omissions policy would provide, Fannie Mae may accept a mortgage impairment insurance policy as a substitute.

D. Required Policy Provisions

Each fidelity bond or errors and omissions insurance policy must include the following provisions, if they can be obtained:

- Fannie Mae will be named as "loss payee" on drafts the insurer issues to pay claims for covered losses that Fannie Mae incurs.
- Fannie Mae will have the right to file a claim directly with the insurer if the Lender fails to file a claim for covered losses that Fannie Mae incurs.
- The insurer agrees to notify Fannie Mae at least 30 days before it cancels, reduces, declines to renew, or imposes a restrictive modification to the Lender's coverage for any reason other than a partial or full exhaustion of the insurer's limit of liability under the policy. The insurer also agrees to notify Fannie Mae within 10 days after it receives the Lender's request to cancel or reduce any coverage. All notices to Fannie Mae must be sent to the Lender’s Fannie Mae Representative and to Fannie Mae Multifamily Partner Risk Management.

Section 504.05. Annual Reporting Requirements

Each year, the Lender must send a copy of all of its updated fidelity/surety bond and errors and omissions insurance policy certificates to its Fannie Mae Representative, with a copy to Fannie Mae Multifamily Partner Risk Management. Each insurance certificate must show the:

- insurer's name;
- bond or policy number;
- named insured;
- type and amount of coverage (specifying whether the insurer's liability limits are on a per loss or per Mortgage Loan basis);
- effective date of the coverage; and
- deductible amount.

If the Lender obtains an endorsement to the bond or policy, or obtains optional coverage, it must also provide a copy of the endorsement or a description of the additional coverage, unless this information is summarized substantively on the insurance certificate. Reference to a form or endorsement number does not constitute a substantive summary.
Section 504.06. Per Occurrence Reporting Requirements

The Lender must also report certain events to its Fannie Mae Representative, with a copy to Fannie Mae Multifamily Partner Risk Management, within 10 Business Days after they occur. Specific events that must be reported include:

- the occurrence of a single fidelity or errors and omissions loss relating to a Mortgage Loan transaction that exceeds $100,000, even when no claim will be filed or when Fannie Mae's interest will not be affected; and

- receipt of a notice from the insurer regarding the intended cancellation, reduction, non-renewal, or restrictive modification of the Lender's fidelity bond or errors and omissions insurance policy. The Lender must:
  - provide Fannie Mae with a copy of the insurer's notice;
  - describe in detail the reason for the insurer's action if it is not stated in the notice; and
  - explain the efforts it has made to obtain replacement coverage or to otherwise satisfy Fannie Mae's insurance requirements.

Section 505. Conflict of Interest (08/20/18)

Section 505.01. Conflicts of Interest Prohibited

When underwriting or servicing a Mortgage Loan, the Lender may obtain Nonpublic Personal Information (NPI) or other privileged information about the Borrower or other Persons, the Property, or Fannie Mae’s policies, procedures, operations, or other business requirements. This information must not be:

- used by the Lender to gain an unfair advantage in its relationship with Fannie Mae or in any other way that could be viewed as a conflict of interest; or

- communicated by the Lender to any third party unless:
  - the third party is a Lender Affiliate broker-dealer that is a party to the Fannie Mae multi-party agreement described below, and the disclosure is consistent with the requirements of the multiparty broker-dealer agreement;
  - the third party is subject to a confidentiality, non-disclosure, or other agreement with the Lender that prohibits further disclosure of the information;
  - the third party is a governmental authority that regulates the Lender;
  - the Lender has obtained prior consent as required by Section 506.04; or
  - such disclosure is required by statute or regulation.
The Lender must comply with the requirements of the Lender Contract pertaining to confidential information provided to the Lender by Fannie Mae, and is responsible for compliance by its employees and investors. In addition, if any Lender Affiliate is a licensed securities broker-dealer, both the Lender and its broker-dealer Lender Affiliate must execute a multi-party agreement with Fannie Mae in which the Lender and each of its broker-dealer Lender Affiliates agree that:

- the Lender and broker-dealer Lender Affiliate will not share with each other information about their respective Fannie Mae business activities (including information about a Borrower, Sponsor, or Property that is not available through an MBS disclosure document);
- the Lender and broker-dealer will not take any action that would result in off-market pricing; or
- the Lender and broker-dealer will not take any action that would result in the Lender’s entering into C&D pricing information that differs from the price actually paid to the Lender or its broker-dealer Lender Affiliate by a third party purchaser of a Fannie Mae MBS.

Section 505.02. Conflict Mortgage Loans

A “Conflict Mortgage Loan” is any Mortgage Loan in which:

- a Lender, any Lender Affiliate, or any Lender Senior Executive owns or will own, either directly or indirectly, any equity interest in the Borrower; or
- any Lender employee, or group of employees, owns or will own, either directly or indirectly, an equity interest in the Borrower in excess of 5%.

A Conflict Mortgage Loan is a “Prohibited Conflict Mortgage Loan” that is not eligible for purchase by Fannie Mae when (other than by virtue of any Lender Senior Executive’s ownership interest in the Lender):

- the Lender or any single Lender Senior Executive owns a direct or indirect equity interest in the Borrower in excess of 5%; or
- any group of Lender Senior Executives owns, in the aggregate, a direct or indirect equity interest in the Borrower in excess of 10%.

A Conflict Mortgage Loan that is not a Prohibited Conflict Mortgage Loan is otherwise eligible for purchase by Fannie Mae only in accordance with the requirements set forth in this Section.

A. Control

1. As used in this Section 505, “Lender Control” exists whenever the Lender (other than in its capacity as the Lender under the Loan Documents), any Lender Affiliate, or any employee or group of employees of the Lender or any Lender Affiliate:
(a) has the ability to direct or require changes to, directly or indirectly, the management, operations, or decision-making of the Borrower, the Key Principal, or any Person holding a Controlling Interest in the Borrower or Key Principal;

(b) owns, directly or indirectly, individually or in the aggregate, more than 25% of the equity ownership interests in the Borrower or any Person having a Controlling Interest in the Borrower (either at the time of origination or subsequently, including interests acquired as part of a Transfer/Assumption for which Fannie Mae’s consent is not required under the Loan Documents); or

(c) owns any Preferred Equity in the Borrower.

Nothing in this definition of “Lender Control” shall be deemed to limit the percentage or other interest of ownership that may be used to determine whether the Lender, any Lender Affiliate, the Borrower, or any affiliate of any entity has Control of such entity for any purpose other than identification of a Conflict Mortgage Loan.

2. “Controlling Conflict Mortgage Loan” means a Conflict Mortgage Loan to a Borrower in which:
   - a Lender, Lender employee or group of employees, or Lender Affiliate has Lender Control over the Borrower; Key Principal; any Person holding a Controlling Interest in the Borrower or Key Principal; or any Principal or guarantor; or
   - a Lender Senior Executive owns a direct or indirect equity interest.

3. “Non-Controlling Conflict Mortgage Loan” means a Conflict Mortgage Loan to a Borrower in which the Lender, Lender employee or group of employees, or its Lender Affiliate owns a direct or indirect equity ownership interest in the Borrower or Key Principal or any Person holding a Controlling Interest in the Borrower or Key Principal, but neither the Lender, Lender employee or group of employees, nor its Lender Affiliate has Lender Control over the Borrower; Key Principal; any Person holding a Controlling Interest in the Borrower or Key Principal; or any Principal or guarantor.

B. Underwriting Restrictions

1. Only Lender employees who have not participated in the equity investment in the Borrower may participate in the underwriting or approval of a Conflict Mortgage Loan. The Lender must certify to Fannie Mae in its underwriting submission:
   - that no Lender Senior Executive holds any direct or indirect equity ownership interest in, or has Lender Control over, the Borrower;
   - that no Lender employee or group of employees has Lender Control over the Borrower;
■ the amount of direct or indirect equity ownership in the Borrower owned by any Lender employee or group of employees; and

■ that no Person who participated in the underwriting or approval of the Mortgage Loan holds any direct or indirect equity ownership interest in, or has Lender Control over, the Borrower.

2. In connection with the Lender’s underwriting submission to Fannie Mae for a Conflict Mortgage Loan, the Lender must provide to Fannie Mae copies of the Borrower’s organizational documents and financial statements, including all organizational documents and financial statements for any Lender Affiliate that holds a direct or indirect equity ownership interest in the Borrower (and an organizational chart or diagram showing the ownership structure and the relationship of the Lender, Borrower, and applicable Lender Affiliate).

C. Servicing Restrictions

1. The Lender, as servicer of a Controlling Conflict Mortgage Loan, will not participate in loss mitigation or special asset management decisions in connection with a Controlling Conflict Mortgage Loan that becomes a Non-Performing Mortgage Loan, and will have no right to be notified of or participate in negotiations or communications between Fannie Mae and the Borrower, Key Principal, or Principal (or any Affiliate of any of them), although Fannie Mae will use commercially reasonable efforts to assure that the Lender receives copies of written communications between Fannie Mae and such other parties.

2. Fannie Mae will exercise any remedy or take or forbear from taking any other action with respect to any Controlling Conflict Mortgage Loan, any Property securing a Controlling Conflict Mortgage Loan, or any Borrower or guarantor, in Fannie Mae’s sole and absolute discretion.

3. The foregoing servicing restrictions will continue as long as the Mortgage Loan continues to be a Controlling Conflict Mortgage Loan, but shall terminate if the Mortgage Loan is assumed by a Borrower whose ownership structure does not result in the Mortgage Loan’s continuing to be a Controlling Conflict Mortgage Loan.

4. If Fannie Mae, in its sole and absolute discretion, determines that a Controlling Conflict Mortgage Loan is at a material risk of default or is otherwise exhibiting elevated risk characteristics, Fannie Mae has the right, in its sole and absolute discretion, to designate a substitute Servicer or Subservicer for that Controlling Conflict Mortgage Loan or to terminate, with or without cause, the Lender’s right to service the Controlling Conflict Mortgage Loan.

Any such substitute servicing, subservicing, or termination of servicing of a Controlling Conflict Mortgage Loan will be effective (a) immediately, in the case of a
substitute servicing, subservicing, or termination for cause, or (b) not less than 30 days after the date of such notice, if such substitute servicing, subservicing, or termination is without cause.

In no event will Fannie Mae be obligated to pay a termination fee or other compensation to the Lender in connection with such substitute servicing, subservicing, or termination. Further, Fannie Mae has the right to pay to the substitute Servicer or Subservicer the servicing compensation that was paid to the Lender for the Controlling Conflict Mortgage Loan, and the Lender’s right to receive a Servicing Fee will be eliminated. Following any such transfer of servicing, the Lender will have no liability for any action or inaction of the substitute Servicer or Subservicer, nor will the Lender have any obligation to fund servicing or Delinquency Advances in connection with the Controlling Conflict Mortgage Loan that accrue following the transfer of servicing.

D. Loss Sharing Requirements

If a Conflict Mortgage Loan is approved for purchase by Fannie Mae, the Lender’s Loss Sharing obligation on the Conflict Mortgage Loan must be in accordance with the requirements of its Master Loss Sharing Agreement and Matrix.

E. No Right of First Refusal

Notwithstanding any provision of the Lender’s Master Loss Sharing Agreement that purports to grant to the Lender a right of first refusal to purchase a Property following foreclosure, the Lender will not have (and the Lender’s delivery of a Conflict Mortgage Loan to Fannie Mae shall be deemed a waiver of) any right of first refusal to purchase a Property that secured a Conflict Mortgage Loan.

F. DLA Mezzanine Financing

The requirements of this Section 505 also apply to a Mortgage Loan made in conjunction with any DLA Mezzanine Financing pursuant to Part IIIC, Chapter 10.

G. Low Income Housing Tax Credits

The requirements of this Section 505 do not apply to a transaction in which a Lender or Lender Affiliate obtains an equity interest as a limited partner or non-managing member in a Borrower or Borrower Affiliate, if the equity interest is attributable to an investment made for the sole purpose of benefitting from an allocation of Low Income Housing Tax Credits (“LIHTC”). The requirements set forth in Part IIIB, Section 710 of the Guide apply to LIHTC transactions.

H. Additional Disclosure

Each MBS backed by a Conflict Mortgage Loan requires Additional Disclosure to inform potential Investors of the Lender’s or Lender Affiliate’s identity of interest with the Borrower. A Lender submitting a Conflict Mortgage Loan for an MBS transaction must indicate in C&D that
Additional Disclosure is required and whether the Lender or a Lender Affiliate has a Controlling Interest or a non-Controlling Interest. Any Lender that markets an MBS to potential Investors must disclose that the MBS will have Additional Disclosure regarding the underlying Conflict Mortgage Loan.

I. Notification Requirements

1. In addition to information submitted in the underwriting submission, the Lender must designate the Mortgage Loan as a Conflict Mortgage Loan at the time of entry in DUS Gateway.

2. If the Lender acquires an interest in a Borrower, Key Principal, or Principal (or any Affiliate of any of them) of any Mortgage Loan that is serviced by the Lender but was not delivered as a Conflict Mortgage Loan by that Lender, the Lender must provide the materials described in Section 505.02.B within 30 days after acquisition of such interest by delivering all such materials to Multifamily Asset Management.

Section 506. Mortgage Loan and Servicing Files and Records (08/20/18)

Section 506.01. Ownership and Maintenance of Mortgage Files and Records

Once Fannie Mae purchases a Mortgage Loan, the Mortgage Loan files and records belong entirely to Fannie Mae, as noted in Part II, Section 306.08. Any Mortgage Loan records in the possession of the Lender are retained in a custodial capacity only, for the benefit of Fannie Mae. The Lender must maintain an individual Mortgage Loan file for each Mortgage Loan it sells to Fannie Mae. This file must include any documents or records required to service the Mortgage Loan, any documents that attest to the validity of the Mortgage Loan, and any documents that may be necessary to satisfy legal or procedural requirements for enforcement of any remedy contemplated by any of the Loan Documents. Each Mortgage Loan file must be identified by Fannie Mae's Mortgage Loan number in addition to any other identification used by the Lender.

The Lender must make certain that possession or control of, or interest in, any of the Mortgage Loan Documents by a warehouse lender is released prior to, or immediately upon, purchase of the Mortgage Loan by Fannie Mae, whether for cash or by delivery of an MBS or DMBS.

Section 506.02. Maintenance of Mortgage Loan Payment Records

The Lender's accounting system must be able to produce detailed information on the following matters:
all transactions that affect the Mortgage Loan balance (including the amount and due date of each payment, when the payment was received, and how the payment was applied);

- the financial status of the Mortgage Loan (including the latest outstanding balances for principal, any and all Custodial Account deposits, Letters of Credit, advances, and unapplied payments);
- any overdrafts in the Collateral Accounts; and
- any Lender advances or defaulted Mortgage Loans under loss sharing.

Section 506.03. Record Retention

A. Retention and Electronic Imaging of Legal Documents and Other File Materials

For more convenient storage, the Lender may electronically image all documents and other materials in its Mortgage Loan files, account records, and any other papers required to document and sell a Mortgage Loan. The Lender must hold and retain copies (in either paper or electronically-imaged form) of all:

- original Loan Documents and insurance policies that are delivered to Fannie Mae;
- documents in the Mortgage Loan Delivery Package of which Fannie Mae has received copies;
- permanent Mortgage Loan account records;
- recorded documents (showing all recording information), including without limitation the Security Instrument, once the document has been returned to the Lender from the county or state recordation office;
- all underwriting documents required to be delivered to Fannie Mae via the then-applicable Fannie Mae system for delivery of underwriting documents; and
- all other documents required to be retained by this Guide or the Lender Contract.

Mortgage Loan files and records include the individual Mortgage Loan files, permanent Mortgage Loan account records, and accounting system reports sent to Fannie Mae.

The Lender must be able to reproduce any electronically imaged materials promptly. If the Lender’s document retention policy permits destruction of original materials after electronic imaging, the Lender may destroy such materials provided (i) the Lender uses such security measures as may be necessary to ensure that no confidential or non-public information is accessible to any Person other than a Person to whom the Lender has granted appropriate security clearance, and (ii) if the Lender destroys any materials that otherwise would have been retained in a Mortgage Loan file, the Lender indemnifies and holds Fannie Mae harmless against any loss, damage, judgment, or expense that Fannie Mae may sustain as a result of the Lender's electronic
imaging or destruction of original materials, including but not limited to attorneys' fees and costs incurred by or on behalf of Fannie Mae in bringing or defending any action or proceeding to assert or defend Fannie Mae's interest in or enforce any Mortgage Loan, or to assert or defend Fannie Mae’s unrestricted ability to transfer the Mortgage Loan.

Any electronically imaged document must be a replication of the executed document (if applicable) and not merely the transformation of a word processing document into an image format. Prior to Lender’s election to electronically image any document permitted by Fannie Mae to be electronically imaged, Lender must have redundant archival systems in place to assure that a failure of a single system will not result in loss, damage, or corruption of the electronic image.

B. Retention After Payoff or Other Liquidation

After a Mortgage Loan has been paid in full or is otherwise liquidated, the Lender must keep the individual Mortgage Loan records for at least 7 years, or longer in the event that (i) the Lender has been notified by Fannie Mae that Fannie Mae is subject to a “legal hold” of certain documents by order of its regulator or a court of competent jurisdiction; or (ii) applicable law requires a longer retention period, in either of which events the Lender must retain the Mortgage Loan records for the longer retention period specified in the applicable legal hold, court order, or law.

Section 506.04. Information Security

The Lender must implement appropriate policies to ensure the security, integrity, and confidentiality of all physical and electronic storage and access systems containing Mortgage Loan files, payment records, and NPI. Such policies must be sufficient to protect against unauthorized access to, or use of, such records and ensure compliance with the confidentiality requirements of the Lender Contract and the Guide, as well as all applicable legal and regulatory data storage, data access, and Data Breach incident requirements. Before the Lender discloses NPI relating to a Mortgage Loan, unless the proposed disclosure is required by applicable law, the Lender must obtain authorization from each Person whose NPI will be disclosed. Any NPI disclosed by the Lender with respect to a Mortgage Loan must be accurate, complete, and easily understandable by the recipient.

- The Lender must maintain a response program for all Mortgage Loans providing for the following activities in the event of a Data Breach:
  - assessment of the nature and scope of the Data Breach;
  - notification to its primary federal regulator (as applicable) as soon as possible when the Lender becomes aware of the Data Breach;
  - consistent with applicable Suspicious Activity Report (SAR) regulations, filing a timely SAR, and in situations involving federal criminal violations, promptly notifying appropriate law enforcement authorities;
  - taking appropriate steps to contain and control the Data Breach; and
giving written notice to the affected Persons and any state agencies or other bodies in accordance with privacy and data security breach laws.

If the Lender believes that a Data Breach involving one or more Mortgage Loans (i) has affected 10 or more Persons; (ii) triggers a requirement to notify a state agency or other regulatory body designated by any privacy or data security law; or (iii) involves the intentional misuse of NPI of any Person associated with a Mortgage Loan; then the Lender must:

- within 72 hours after the Lender becomes aware of such Data Breach, deliver a Data Breach Notice to the Fannie Mae Privacy Office, that includes:
  - a detailed description of the:
    - scope of the incident, including the number of affected Persons and the states in which they reside (or are organized);
    - related NPI;
    - cause of the Data Breach (if known); and
    - Lender’s response plan; and
  - either (i) a copy of the draft written notice that the Lender plans to send to each affected Person, or (ii) an explanation as to why the Lender does not intend to send such written notice; and
- obtain written approval from Fannie Mae before including a reference to Fannie Mae in any notice that will be sent to a Person or regulatory agency;
- provide a written notice to all affected Persons and any state agencies or other jurisdictional bodies if required in accordance with privacy and data security breach laws; and
- maintain a copy of each Data Breach Notice in the relevant Mortgage Loan file.

The Lender must cooperate fully with Fannie Mae, including, without limitation, providing any information or access that Fannie Mae may request to enable Fannie Mae to comply with its legal, regulatory, privacy, and Data Breach incident management obligations.

The Lender must enable Fannie Mae to validate the effectiveness of the Lender’s risk management policies, procedures, and systems by means of an independent third party SSAE18/SOC 1 report, AT 101/SOC 2 or 3 report, or other form of independent third party assessment, or by completing a third party self-certification approved by Fannie Mae (each, an “Independent Security Assessment”), at least once annually. To the extent any Fannie Mae Confidential Information will be stored on the Lender’s assets or at the Lender’s facilities, the Independent Security Assessments will also include, but will not be limited to, network perimeter penetration testing. If an application is hosted by an Outside Party and made available to any party on the internet, the
Independent Security Assessment will also include, but will not be limited to, application security testing. The Lender must provide Fannie Mae with a copy or summary of its Independent Security Assessment within 30 days of its receipt of the Independent Security Assessment. The Lender must take reasonable measures to remedy any adverse findings or vulnerabilities noted in an Independent Security Assessment promptly to Fannie Mae’s reasonable satisfaction.

- The Lender must ensure that “cyber risk” coverage is among the perils and liabilities for which the Lender maintains the insurance coverage required by the Guide.

Fannie Mae shall have the right to receive from the Lender an annual certification confirming the Lender’s compliance with the information security requirements of this Chapter. Any loss, cost, or expense that Fannie Mae actually incurs as a result of a Data Breach experienced by the Lender shall be included in the indemnities in favor of Fannie Mae provided by the Lender pursuant to the Lender Contract and the Guide.

Section 507. Fannie Mae Access to Mortgage Loan Files and Records (08/25/14)

Upon Fannie Mae's written request, the Lender must deliver all Mortgage Loan records and documents to Fannie Mae or its designee. Each Mortgage Loan must be clearly identified. If the Lender has electronically imaged any of the records, the Lender must reproduce them in the requested format at its own expense. Fannie Mae will not execute any trust receipts for documents it requests and will not participate in, or provide compensation for, their delivery. The Lender will be liable for any legal fees, costs, and related expenses that Fannie Mae incurs in enforcing its right of access to the records. In the event of termination or transfer of servicing of any Mortgage Loan, the terminated or transferring Lender is responsible for ensuring that all files and records pertaining to the terminated or transferred Mortgage Loan are delivered to and received by Fannie Mae or the successor servicer.

Section 508. Lender Compensation (08/25/14)

See Part IVA, Chapter 2 for a discussion of fees and Lender compensation.

Section 509. Ownership and Control of Lender (08/20/18)

Section 509.01. Approved Lender Continuing Requirements

Fannie Mae approves each Lender based upon its independent verification that the Lender meets the requirements of this Guide and the Lender Contract, including, without limitation, review and approval of the Lender’s owners, organizational structure, and funding sources to facilitate Fannie Mae’s compliance with the requirements and regulatory expectations of the AML provisions of the BSA. In addition to the reports submitted periodically pursuant to Part II, Section 404, Fannie Mae
may require the Lender to provide periodically, among other things, additional background, financial, and ownership information as requested to confirm that the identity and legitimacy of the Lender remain consistent with the status upon which Fannie Mae’s approval was based, and to assess the AML risk associated with the Lender.

Section 509.02. Reporting Basic Changes

If the Lender makes or experiences any basic change in its ownership, staff or facilities, financial condition, business operations, structure, organization, activities, or purpose, the Lender must provide to Fannie Mae immediate written notification of the change. Specifically, the Lender must submit written notification to Fannie Mae Multifamily Partner Risk Management if any of the following changes occurs or is anticipated, and (except as noted under subparagraphs C, J, and L below) must obtain Fannie Mae's prior written approval before requesting any additional Commitments. A Lender whose authority is limited to servicing must notify Fannie Mae at least 60 days prior to the date on which the Lender expects an event to occur that could result in any of the changes or approval requirements described in this Section. Changes include:

(a) A material adverse change in the financial condition of the Lender, its parent, any general partner of the Lender, or any Lender Affiliate that could affect Fannie Mae.

(b) A significant change in the direct or indirect ownership of the Lender, including:
   - a sale, pledge, or transfer of a majority or Controlling Interest, or acquisition by a Foreign Person of any direct or indirect interest, in the Lender, the Lender's parent, the parent's owner, any general partner of the Lender, or any beneficial owner of the Lender. However, if the Lender, Lender's parent, parent's owner, general partner, or beneficial owner is a publicly traded entity, the requirement to report an acquisition by a Foreign Person applies only to an acquisition that results in such Foreign Person’s ownership of an aggregate interest sufficient to require filing of a statement with the Securities and Exchange Commission on Schedule 13D (any information required to be reported pursuant to this bullet must be reported to Fannie Mae Ethics and Fannie Mae Multifamily Partner Risk Management);
   - an initial public offering of ownership interests in the Lender, regardless of the percentage of ownership offered; or
   - commencement or termination of (i) public trading of the securities, or (ii) regulation by the Securities and Exchange Commission, of the Lender or the Lender’s direct or indirect parent.

(c) The addition or departure of a member of the Lender's senior management or any member of the Lender's key staff responsible for originating, underwriting, delivering, asset managing, or servicing Mortgage Loans, or any key contract personnel. Fannie Mae’s prior approval is required for changes to the Chief Underwriter; however, a
resume must be submitted for each new individual, whether or not Fannie Mae approval is required.

(d) Relocation of Lender’s main office, or any regional office or operating division, beyond the Metropolitan Statistical Area in which it was located previously.

(e) An assumption by a regulatory agency of a participative role in the management of the Lender's operations, or issuance to the Lender by a regulatory agency or government sponsored entity (including Freddie Mac, HUD, Ginnie Mae, the Federal Reserve, FDIC, SEC, Office of the Comptroller of the Currency) of a debarment notice, cease and desist order, suspension, termination, consent decree, settlement agreement, or other adverse finding, regardless of whether the basis of such regulatory action pertained to the Lender’s activities in connection with Fannie Mae.

(f) A reorganization, merger, or consolidation affecting the Lender, its parent, or any general partner of the Lender. If such action will result in a transfer of the Lender’s servicing, the Lender must request Fannie Mae's approval of the transfer.

(g) A change in the Lender's charter, articles of incorporation, partnership agreement, or other organizational documents.

(h) If the Lender is subject to the BSA, any instance of non-compliance, compliance failure, or imposition of a sanction related to the AML requirements of the BSA. Any information required to be reported pursuant to this item H must be reported to Fannie Mae Ethics and Fannie Mae Multifamily Partner Risk Management.

(i) Any legal or regulatory action, including any pending litigation or judgment, that will, or could, have a material financial or business impact on the Lender.

(j) Involvement by the Lender in a new business activity, including, without limitation, bridge or mezzanine lending.

(k) Addition of the Lender, any owner of at least 25% of a Lender, any member of the Lender’s senior management, or any member of the Lender’s senior or other key staff to the list of “Specially Designated Nationals” or “Prohibited Persons” maintained by OFAC.

(l) A change in the Lender's name. Fannie Mae’s prior approval is required only if there is another change occurring in conjunction with the name change (e.g., a merger, consolidation, ownership or asset transfer, or change in the Lender’s jurisdiction of organization). However, to facilitate timely and accurate changes to Fannie Mae’s systems for operations and MBS issuance, prior notice of the change, together with draft documentation verifying the new name or other relevant changed information, must be provided as soon as the information is available. Notice of any anticipated change mentioned in this item L must be provided to the Collateral Custodian and
Fannie Mae not less than 10 Business Days before any proposed change takes place. See the Lender Contract for more specific requirements regarding notice and lien perfection.

(m) A change of regulator, whether from one federal regulatory agency to another, or from federal to state regulation of the Lender, or vice versa.

(n) Any change in the Lender's place or jurisdiction of organization or place of business, or “designated state of location” as specified in the Lender’s federal charter filing, if any. Notice of any anticipated change mentioned in this item N must be provided to the Collateral Custodian and Fannie Mae not less than 10 Business Days before any proposed change takes place. See the Lender Contract for more specific requirements regarding notice and lien perfection.

The Lender must include with its written notice copies of any documents effecting or evidencing the changes, together with any organization charts or diagrams as may be necessary to illustrate the effect of the changes on the Lender’s organizational or staffing structure, if applicable. If any documents are to be filed, the Lender must provide copies of any applicable state or regulatory authority filings and approvals as soon as possible.

Fannie Mae reserves the right to charge a reasonable fee to cover administrative and legal costs (e.g., outside counsel's fees) incurred in connection with reviewing the changes or preparing any necessary legal documents. Fannie Mae also reserves the right to charge a servicing transfer fee in accordance with this Guide if it determines, in its sole discretion, that the change will involve a "servicing transfer."

Section 510. Correspondent Agreements (07/10/17)

Section 510.01. General

A Lender may enter into arrangements or agreements with Correspondents that permit a Correspondent to originate Mortgage Loans for the Lender (each, a “Correspondent Agreement”). Correspondent Agreements must specify the amount and timing of all compensation to be paid to the Correspondent, including the Correspondent’s share of the Origination Fee, Premium Pricing proceeds, or the Servicing Fee. Unless the Correspondent Agreement provides for the sharing of the Servicing Fee as described in Section 512 of this Chapter, or otherwise deviates from the requirements of this Section, Fannie Mae’s prior approval is not required. If a Mortgage Loan delivered to Fannie Mae was originated under a Correspondent Agreement that did not comply with the provisions of the Guide, that Mortgage Loan will be considered non-conforming, and appropriate remedies will apply.
Section 510.02. Correspondent Use of Fannie Mae Name, Logo, or Marks

Each contract or arrangement with a Correspondent must meet the applicable requirements for outsourcing agreements listed in Section 511.05, and in particular must provide expressly that the Correspondent is prohibited from:

- using Fannie Mae's name or logo in any manner;
- indicating implicitly or explicitly that such Correspondent is authorized to provide services to or originate Mortgage Loans for sale to Fannie Mae; or
- otherwise indicating that the Correspondent is a participant in any Fannie Mae product line.

Section 510.03. Monitoring Correspondents

The Lender is responsible and accountable to Fannie Mae for monitoring its Correspondents to ensure the accuracy and fairness of representations made by its Correspondents, as well as compliance with the requirements and restrictions of the Correspondent Agreement and the Guide.

The Lender is responsible and accountable to Fannie Mae for verifying periodically that no Correspondent, Person with Control of the Correspondent, or any member of the Correspondent’s senior management:

- appears on the list of Specially Designated Nationals or Prohibited Persons maintained by OFAC;
- appears on the FHFA Suspended Counterparty List; or
- exhibits ownership, financial, or other attributes that would raise a “red flag” under the Lender AML Program.

Section 511. Outsourcing Certain Functions (08/20/18)

The Lender may employ Outside Parties to perform certain low risk servicing and asset management functions. The Lender’s entry into an outsourcing arrangement will not in any way change the Lender’s responsibilities and obligations, including any loss sharing or repurchase obligations. The Lender will remain the servicer of record, will be responsible to Fannie Mae for all actions taken by the Outside Party, and must actively manage the Outside Party. The Lender and each Outside Party will be subject to the Fannie Mae Lender assessment process.

Section 511.01. Functions Eligible for Outsourcing

All functions performed by an Outside Party must be performed with the same high standard of care expected of the Lender in accordance with the Lender Contract and this Guide.
The list of Non-Restricted Functions in this subsection is not exhaustive, and is intended to provide examples and guidance in addition to the list in Part IIIA, Section 102 of Non-Restricted Functions related to underwriting. Fannie Mae reserves the right to limit functions available for outsourcing, to approve, terminate, or restrict Outside Party eligibility, and to terminate or reject a Lender’s ability to outsource certain functions.

A. Servicing Functions

The following Non-Restricted Functions related to servicing may be performed by an Outside Party on behalf of a Lender:

- on-board Mortgage Loans and enter Mortgage Loans into system of record;
- process and post payments from Borrowers;
- generate and mail monthly statements to Borrowers;
- remit cash and data to Fannie Mae (including monthly cash, data, and delinquency reporting);
- perform escrow analyses, process tax and insurance bills and payments, and administer reserve amounts/accounts;
- administer ARM Loan interest rate adjustments;
- calculate Mortgage Loan payoff amounts, including defeasance and Prepayment Premium amounts;
- make initial calls to delinquent Borrowers; and
- answer general Borrower questions, such as those relating to Mortgage Loan balances, escrow balances, and payment information.

B. Asset Management Functions

The following Non-Restricted Functions related to asset management may be performed by an Outside Party on behalf of a Lender:

- identify Watchlist Mortgage Loans;
- inspect Properties (excluding Properties on the Watchlist);
- scrub, spread, and analyze Property financial statements; however, the Lender must remain responsible for certifying and sending the Property financial statements to Fannie Mae;
- provide preliminary Watchlist commentary subject to finalization by the Lender; and
- prepare initial analytics for risk decision-making by the Lender.
Section 511.02. Functions Not Eligible for Outsourcing

The Lender may not outsource origination, underwriting, or loan delivery functions except under a Correspondent Agreement that complies with the requirements of Section 510. In addition to the Restricted Functions listed in Part IIIA, Section 103.01, the following types of Restricted Functions cannot be performed by an Outside Party on behalf of a Lender:

- Management of Watchlist Mortgage Loans, delinquent Mortgage Loans, or Mortgage Loans in Special Asset Management – An Outside Party cannot perform any decision making activities on Watchlist, delinquent, or Mortgage Loans in Special Asset Management.

- Credit/Risk Decisions – The Lender must perform the final analysis on any credit/risk decision and make credit/risk related recommendations to Fannie Mae.

- Casualty/Condemnation Proceeds – The Lender must perform the final analysis regarding how to apply casualty or condemnation proceeds (e.g., whether to use the proceeds for rebuilding, or apply the proceeds to the outstanding indebtedness) and make related recommendations to Fannie Mae.

- Collateral Release – The Lender must review, analyze, and recommend approval to Fannie Mae for the release of any Mortgage Loan collateral other than normal and customary tax and insurance payments. Limits on what is considered normal and customary should be set independently by the Lender. Examples of collateral that must be approved by the Lender prior to the release include Letters of Credit, non-delegated repair related escrows, and completion escrows.

- Borrower Contact – The Lender must manage the Borrower relationship and perform all Borrower contact except for general and administrative questions and follow-up in conjunction with the low risk servicing and asset management functions, all of which should be provided in the name and on behalf of the Lender, and not in the name of the Outside Party. Unless expressly approved in writing by Fannie Mae, the Outside Party cannot perform functions that give the Outside Party access to confidential Borrower or Key Principal financial information.

- Assumptions – The Lender may not delegate to an Outside Party approval of Mortgage Loan assumptions.

- Lender Delegated Waivers – The Lender must approve and document all Lender delegated modifications in accordance with the requirements of this Guide.

- Solicitation – The Outside Party cannot solicit, for its sole and independent benefit, the Lender’s portfolio for refines or ancillary income opportunities; however, it may solicit the Lender’s portfolio for ancillary income opportunities as an extension of its relationship with the Lender.

- Final Mortgage Loan payoff, defeasance and prepayment calculations.
Section 511.03. Lender’s Roles and Responsibilities

The Lender is responsible to Fannie Mae for all actions taken on the Lender’s behalf by any Outside Party. The Lender is responsible and accountable to Fannie Mae for monitoring any Outside Parties engaged by the Lender to ensure the accuracy and completeness of all work, as well as continuous compliance with the requirements and restrictions of the Lender Contract and the Guide. The Lender must:

- remain the servicer of record;
- be knowledgeable about multifamily mortgages and properties and remain knowledgeable and engaged;
- have documented procedures and active management oversight processes, including appropriate staffing by employees having sufficient expertise for managing each of the Lender’s outsourced service providers; and
- have rights that grant the Lender and Fannie Mae full access to the information maintained by each Outside Party on behalf of the Lender or Fannie Mae.

An employee of the Lender is not an Outside Party if the person has dual employee status and the person’s other employer is a Lender Affiliate.

Section 511.04. Minimum Requirements for Outside Parties

A. Monitoring Outside Parties

The Lender shall not use any Outside Party or Non-Employee listed on the FHFA’s Suspended Counterparty Program list (the “SCP List”) for the performance of any function directly related to the origination, underwriting, or servicing of a Mortgage Loan. Each Lender must establish and maintain procedures requiring the Lender to confirm that the Outside Party or Non-Employee is not included on the SCP List prior to the Lender’s entering into any contract or arrangement with such Outside Party or Non-Employee. Fannie Mae will not purchase any Mortgage Loan where any Outside Party or Non-Employee included on the SCP List has performed any function directly related to the origination, underwriting, or servicing of the Mortgage Loan.

The Lender is responsible and accountable to Fannie Mae for verifying periodically that no Outside Party, nor any member of the Outside Party’s senior management, (i) appears on the list of Specially Designated Nationals or Prohibited Persons maintained by OFAC; (ii) appears on the FHFA Suspended Counterparty List; or (iii) exhibits any ownership, financial, or other attribute that would raise a “red flag” under the Lender AML Program. If the Lender discovers that any Outside Party engaged by the Lender fails to satisfy the standards described in any clause of this paragraph, the Lender must report all relevant facts to Fannie Mae Ethics and Fannie Mae Multifamily Partner Risk Management.
B. **Cash/Original Documents**

All cash depository and other bank or brokerage accounts maintained by an Outside Party for use in connection with a Fannie Mae-owned Mortgage Loan must be maintained with a financial institution that is not a Foreign Person, and cannot be transferred to a financial institution that is a Foreign Person. All original Mortgage Loan and Property related documents must remain in the United States and may not be transported or located outside of the United States at any time. All electronically imaged materials must be stored on computer equipment located in the United States.

The Lender must not use an Outside Party or Lender employee who is located outside the United States without the prior written consent of Fannie Mae.

C. **Fidelity and Errors and Omissions Coverage**

Each Outside Party is required to maintain a prudent level of fidelity and errors and omissions insurance coverage, as determined by the Lender.

D. **Outside Party’s Failure to Perform**

If Fannie Mae determines that any Outside Party or Non-Employee has failed to perform in accordance with the requirements of this Guide, then Fannie Mae, in its sole discretion, may require the Lender to cease using such Outside Party or Non-Employee in connection with services performed on any Mortgage Loan sold to or serviced for Fannie Mae.

**Section 511.05. Minimum Requirements for Outsourcing Agreements**

A. **General**

1. **Servicing Standard**

Any outsourcing agreement between the Lender and an Outside Party must contain the Outside Party’s express acknowledgement that all servicing or other activities performed on behalf of the Lender for Fannie Mae must comply with the requirements of the Guide. If the Outside Party also provides services for its own account or for other third parties, its activities on behalf of the Lender must be conducted in accordance with Accepted Servicing Practices or to the Fannie Mae Guide standard, whichever is most stringent.

2. **Records**

The Outside Party must be required to maintain all records in accordance with Guide requirements. The Lender and Fannie Mae must have examination and audit rights, and the Outside Party must be obligated to provide copies of records upon request of either
the Lender or Fannie Mae, at no cost to either. All Mortgage Loan records must remain the property of Fannie Mae, as required by the Guide and the Lender Contract.

3. Limitations on Outside Party Rights

Every outsourcing agreement that provides for performance by an Outside Party of any of the Lender’s servicing or asset management obligations to Fannie Mae shall include such Outside Party’s express acknowledgement that:

- Fannie Mae owns each Mortgage Loan that is the subject of the agreement;
- Fannie Mae has the right to terminate the Lender's right to service any Mortgage Loan at any time and to remove from the Lender and the Outside Party the files and records related to that Mortgage Loan;
- all rights of such Outside Party to any compensation, including any portion of the Servicing Fee from each Mortgage Loan, are unsecured and totally subordinate to the rights of Fannie Mae at all times, and are immediately terminated without notice upon the termination of the Lender's right to service the Mortgage Loan;
- the agreement creates no right of the Outside Party to originate, sell, or service Mortgage Loans on behalf of Fannie Mae, and the Outside party is prohibited from indicating implicitly or explicitly that the Outside Party is authorized to perform services for Fannie Mae; and
- the agreement creates no right of the Outside Party to use Fannie Mae’s name, logo, or other intellectual property restricted under Section 514.

In case of inconsistencies between the outsourcing agreement and the Guide or Lender Contract, the Guide and Lender Contract must Control.

4. Relationship Between Fannie Mae and the Outside Party

The outsourcing agreement must provide that Fannie Mae is a third party beneficiary of the contract, and that Fannie Mae will have the right to enforce the contract against the Outside Party directly. However, under most circumstances Fannie Mae will not interact directly with the Outside Party unless Fannie Mae requests otherwise in writing. Fannie Mae expects to request direct contact with the Outside Party for routine questions regarding submissions, as well as to provide a forum for the Outside Party to resolve any ongoing questions it has of Fannie Mae.

B. Compensation

The Lender’s outsourcing agreement must contain an express statement that Fannie Mae is not required to pay any compensation to the Outside Party. A Lender may enter into an outsourcing
agreement that provides for sharing Servicing Fees with the Outside Party so long as the terms of the outsourcing agreement comply with the restrictions set forth in Section 512 of this Chapter.

C. Confidentiality

Unless the outsourcing agreement contains an express confidentiality provision that meets Fannie Mae’s requirements, the Outside Party will be required to execute a non-disclosure agreement with Fannie Mae and each Lender for which it enters into an agreement to become an Outside Party. The non-disclosure agreement must conform to Fannie Mae’s standard form of non-disclosure agreement in effect as of Fannie Mae’s execution of the Consent to Outsourcing.

D. Indemnification

If the Lender enters into an outsourcing agreement, then the Lender's execution of that agreement, whether or not the agreement was approved by Fannie Mae, shall constitute the Lender's acknowledgment and agreement with Fannie Mae that the Lender indemnifies and holds Fannie Mae harmless against any loss, damage, judgment, or expense that Fannie Mae may sustain as a result of the Lender's entry into the agreement or engagement of the Outside Party, including but not limited to attorneys' fees and costs incurred by or on behalf of Fannie Mae in bringing or defending any action or proceeding to enforce Fannie Mae's interest in the servicing of a Mortgage Loan and the unrestricted transfer of the Mortgage Loan. The Lender’s engagement of an Outside Party, whether or not approved by Fannie Mae, shall have no effect on the Lender’s obligations to repurchase a Mortgage Loan or share in credit losses pursuant to the Lender’s Master Loss Sharing Agreement, all of which obligations shall remain enforceable against the Lender notwithstanding any performance of, or failure by an Outside Party to perform, the Lender’s servicing or asset management obligations.

E. Consent to Outsourcing

Fannie Mae may require the Outside Party to execute a triparty Consent to Outsourcing with Fannie Mae and any Lender for which it enters into an outsourcing agreement. The Consent to Outsourcing must include a copy of the Outside Party’s outsourcing agreement, which must contain a detailed listing of the functions the Outside Party will perform on behalf of the Lender and Fannie Mae. Any outsourcing agreement submitted for Fannie Mae approval must be marked to identify the provisions required by this Section. Fannie Mae may engage outside legal counsel to review any proposed outsourcing agreement and prepare Fannie Mae’s Consent to Outsourcing, and Fannie Mae will not approve that outsourcing agreement until the Lender has paid all costs and expenses incurred by Fannie Mae for such review and document preparation. Fannie Mae’s agreement to the Consent to Outsourcing may require modification of the outsourcing agreement to meet Fannie Mae’s requirements. No outsourcing arrangement shall be deemed approved until Fannie Mae executes the Consent to Outsourcing.
Section 512. Sharing of Fees (07/10/17)

A. General

Except as otherwise permitted in this Section the Lender must not:

- sell, assign, transfer, pledge, subordinate; or hypothecate (in whole or in part) any part of the Servicing Fee or other servicing income to which it is entitled in connection with its servicing of a Mortgage Loan pursuant to this Guide or the Lender Contract;

- enter into any agreement, arrangement, or contract that would result in any such sale, assignment, transfer, pledge, subordination; or hypothecation; or

- pledge the servicing rights to all or part of its Fannie Mae Mortgage Loan portfolio.

Subject to the foregoing, a Lender may pledge the Lender’s income from MSR but any such pledge must be expressly subject to Fannie Mae’s rights under the Lender Contract, including Fannie Mae’s rights to:

- terminate the Lender Contract with or without cause;

- consent to any assignment of the Lender Contract (including an assignment to or for the benefit of a Lender’s creditor); and

- approve of any change in ownership of the entity entitled to sell or service Mortgage Loans pursuant to the Lender Contract (including ownership or control by a Lender’s creditor following exercise of the creditor’s remedies).

Notwithstanding the foregoing, and provided the Lender’s aggregate liabilities and debt service do not jeopardize the Lender’s continuing ability to meet the Acceptable Lender Net Worth Test and Lender Liquidity Requirements, income derived from MSR may be pledged:

- for warehousing loans committed to Fannie Mae, Freddie Mac, or FHA; or

- to secure other financing approved by Fannie Mae.

B. Sharing of Servicing Fee with Employees, Correspondents, or Other Outside Parties

1. General

A Lender may enter into an agreement with a Correspondent, Employee, or other Outside Party that provides for sharing a portion, not to exceed 25%, of the Servicing Fee (a “Servicing Strip”) with such Person so long as the terms of such agreement are consistent with the terms of Section 512.

Each agreement providing for a Servicing Strip must include the Person’s express acknowledgement that:
• each Mortgage Loan that is the subject of the agreement is owned by Fannie Mae;

• Fannie Mae has the right to terminate the Lender's right to service any Mortgage Loan at any time and to remove from the Lender the files and records related to that Mortgage Loan;

• all rights of such Person to the Servicing Strip are unsecured and totally subordinate to the rights of Fannie Mae at all times, and are immediately terminated without notice upon the termination of the Lender's right to service the Mortgage Loan; and

• such Person shall have no claim to the Servicing Strip following termination of the Lender’s servicing rights.

Any Servicing Strip must be structured so that the payments are made to Person over the life of the Mortgage Loan. No agreement or arrangement may provide that a share of a Servicing Fee may be paid in a lump sum or otherwise prior to payment by the Borrower of the corresponding debt service payment. Any agreement that provides for a Servicing Strip must also provide for a corresponding, proportional reduction in the Servicing Strip in the event of any reduction in the Servicing Fee, without limitation.

2. Agreements with Correspondents

If a Lender intends to enter into a Correspondent Agreement providing for a Servicing Strip, or if a Lender believes that a proposed Correspondent Agreement deviates from the requirements of this Section, the Lender must first submit the proposed agreement for approval by Fannie Mae Multifamily Partner Risk Management. Any Correspondent Agreement submitted for Fannie Mae approval must be marked to identify the provisions pertaining to the Servicing Strip and any terms that the Lender believes would not conform to the requirements of Section 510. Fannie Mae may engage outside legal counsel to review any proposed Correspondent Agreement, and Fannie Mae’s approval will not be issued until the Lender has paid all costs and expenses that were incurred by Fannie Mae to review the Correspondent Agreement. Each Correspondent Agreement requiring Fannie Mae approval must be submitted and approved individually, even if it is substantially similar to an agreement that was approved previously. Any such review or approval conducted by Fannie Mae will be for the sole benefit of Fannie Mae.

3. Agreements with Employees

If a Lender intends to enter into an agreement with an employee providing for a Servicing Strip, the Lender must first submit the proposed form of employee agreement to Fannie Mae Multifamily Partner Risk Management for approval. If the proposed form of employee agreement is satisfactory to Fannie Mae, then the Lender may use the same form of agreement with other employees of the Lender without obtaining further approval by Fannie Mae.
4. Indemnification

If the Lender enters into a Correspondent Agreement, agreement with another Outside Party, or an agreement with an employee of the Lender, and the agreement provides for a Servicing Strip, then the Lender's execution of that agreement, whether or not the agreement was approved by Fannie Mae, shall constitute the Lender's acknowledgment and agreement with Fannie Mae that the Lender indemnifies and holds Fannie Mae harmless against any loss, damage, judgment, or expense that Fannie Mae may sustain as a result of the Lender's sale, assignment, transfer, pledge, subordination, or hypothecation of the Servicing Strip, including but not limited to attorneys' fees and costs incurred by, or on behalf of, Fannie Mae in bringing or defending any action or proceeding to assert Fannie Mae's interest in the servicing of the Mortgage Loan, and Fannie Mae’s unrestricted ability to transfer the Mortgage Loan.

Section 513. Subservicer Approval Process and Fees (08/25/14)

A. Request for Approval of Subservicing

Other than a Non-Restricted Function for which outsourcing is expressly permitted elsewhere in this Guide (e.g., property inspections or tax and insurance services), Lenders cannot outsource servicing activities without the prior express written approval of Fannie Mae. Fannie Mae will review the proposed outsourcing service contract, including any exhibits, and perform on-site due diligence of the proposed Subservicer. Fannie Mae approval of a Subservicer is specific to the Lender for which such approval is granted (i.e., a Subservicer approved by Fannie Mae to subservice on behalf of a Lender may not perform similar functions on behalf of another Lender without prior Fannie Mae approval). In addition, a Subservicer cannot further outsource or subcontract any Non-Restricted Function or other activity with any other service provider, even if that service provider has been approved by Fannie Mae for another Lender, or another outsourcing agreement. Subservicers are subject to the Fannie Mae Lender assessment and oversight processes.

B. Request for Approval by the Service Provider

Any Outside Party that desires to become a Fannie Mae approved Mortgage Loan Subservicer (without selling authority) must submit to Fannie Mae, with the Lender for which the Outside Party desires to perform servicing Restricted Functions, a written request for approval of the proposed subservicing relationship. The request must be accompanied by a $25,000 application fee. Fannie Mae will perform a financial review and on-site due diligence. In addition, the Subservicer will be charged an annual fee (currently set at $25,000 and subject to periodic adjustment) which is due and payable January 1 the year following Fannie Mae approval.
Any Fannie Mae approved Subservicers (without selling authority) must maintain a minimum primary servicer rating set forth in the chart below. In the event of a split rating, the lower rating will apply.

<table>
<thead>
<tr>
<th>Rating Provider</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P</td>
<td>Above Average</td>
</tr>
<tr>
<td>Fitch</td>
<td>CPS2</td>
</tr>
</tbody>
</table>

C. Lender Affiliate Sub-Servicing Arrangements

The provisions of this Section apply to subservicing by a Lender Affiliate, which must adhere to the restrictions of Section 511 (including an outsourcing or shared services agreement that conforms to Fannie Mae requirements), and must be approved by Fannie Mae. If a Lender Affiliate desires to perform any subservicing Restricted Function for a Lender of which it is not a Lender Affiliate, or if such Subservicer ceases to be a Lender Affiliate, the Subservicer must obtain separate Fannie Mae approval prior to performing or continuing to perform such function.

Section 514. Fannie Mae's Name, Service Marks, and Trademarks (07/10/17)

Section 514.01. General

Fannie Mae’s trade name, the Fannie Mae trademark, and other service marks and trademarks that identify Fannie Mae as the source or sponsor of various services or goods are referred to collectively as “Marks” and individually as a “Mark.” Some of these Marks are used in this Guide. A list of our current Marks and guidelines and further terms for using them appears on our Web site: [http://fanniemae.com/portal/trademarks.html](http://fanniemae.com/portal/trademarks.html).

Because Fannie Mae may adopt, use, or obtain rights to other Marks from time to time, the absence of a specific Mark from our published lists does not mean that it is not a Fannie Mae Mark. If a Lender has any questions about whether an unlisted mark is a Fannie Mae Mark, it should contact its Fannie Mae Representative and Fannie Mae Multifamily Partner Risk Management.

The provisions of this Section confirm the terms of any previous agreements and understandings (expressed or implied) between Fannie Mae and a Lender with respect to the use of Fannie Mae Marks.

Section 514.02. License to Use Fannie Mae's Marks

A Lender that uses Fannie Mae’s Marks may do so only in accordance with the terms of its Lender Contract. For example, a Lender that is not approved expressly as a DUS Lender may not use Marks related to DUS, other than in connection with Fannie Mae systems or forms that may reference DUS but are available for use by all approved Lenders. Each Lender agrees that
Fannie Mae’s Marks are distinctive and (in some cases) famous Marks that are valid, enforceable, and belong entirely to Fannie Mae. Fannie Mae grants a nonexclusive, royalty free, non-assignable license to each Lender to use and display the Fannie Mae Marks, consistently with its Lender Contract, within the United States (including its territories and possessions) solely for the purposes of making truthful, accurate, and non-misleading references to Fannie Mae or its products or services in connection with advertising, promoting, marketing, providing Lender financial services or related information services, or providing various other services and products. This license does not give a Lender any right, title, or interest in any Fannie Mae Mark.

This license for Lenders to use our Marks does not apply to Fannie Mae’s House-on-the-Hill Logo. A Lender may not use Fannie Mae’s House-on-the-Hill Logo or any slogan or tagline that belongs to Fannie Mae unless Fannie Mae grants specific written permission to do so.

A Lender's license to use Fannie Mae's Marks is conditioned on the Lender's agreement that the nature and quality of all services that it provides, offers, or sells in connection with its use of the Marks will meet industry standards and adhere to the terms and conditions Fannie Mae specifies for use of its Marks. A Lender has no right to challenge the validity or enforceability of Fannie Mae's Marks (including those on our Web site), to sublicense the use of any Fannie Mae Marks, or to benefit from the value of any good will that might be created by the Lender's use of Fannie Mae's Marks. If Fannie Mae believes that a Lender is not conforming to these standards of quality, Fannie Mae may require the Lender immediately to either comply with the standards or discontinue use of the Fannie Mae Marks. Failure of the Lender to comply with any Fannie Mae requirement regarding the use of its Marks may result in termination of the Lender Contract, for cause. If appropriate, Fannie Mae may also pursue equitable remedies (including specific performance or injunctive relief) to remedy the Lender's breach.

Section 514.03.  Guidelines for Using Fannie Mae's Marks

General guidelines related to the use of Fannie Mae's Marks are discussed in this Section. The entire set of terms and conditions that govern the use of Fannie Mae's Marks is posted on Fannie Mae's Web site. These guidelines, terms, and conditions apply to each approved Lender, subject to limitations on that Lender’s express approval as stated in its Lender Contract.

A Lender may use a specific Mark only in connection with the particular goods or services (including financial service products) for which Fannie Mae uses and licensed the Mark, or for which Fannie Mae has registered (or applied to register) the particular Mark. If a Lender is not certain about the scope of goods or services for which the particular Mark is licensed to be used, it should request Fannie Mae to confirm the scope of the license grant.

A Lender may use a Mark that Fannie Mae uses for a particular Mortgage Loan, service, or product (or to identify the features of such Mortgage Loan, service, or product) only if the Mortgage Loan, service, or product that the Lender offers satisfies all of the requirements that Fannie Mae has established for the particular Mortgage Loan, service, or product to be eligible for...
purchase by Fannie Mae. The Lender also may not use the Mark in connection with a Mortgage Loan that is offered to another entity for purchase.

A Lender may use our Marks to indicate that it is a Fannie Mae-approved Lender, but it must not do so in a way that implies that Fannie Mae has endorsed the Lender or its products and services. A Lender may use a Mark in referring to a specific Mortgage Loan product that Fannie Mae purchases. However, a Lender must not state or otherwise indicate that Fannie Mae has "approved" a specific multifamily property for financing. Furthermore, a Lender does not have the right to sublicense to others the use of our Marks.

Lenders may refer to Fannie Mae trademarks and service Marks in their publications, including their web sites, provided that Lenders affix the proper symbol after the Mark, and include a full attribution notice (e.g., "DUS™ is a trademark of Fannie Mae").

Any use by a Lender of any of Fannie Mae's Marks shall include the proper symbol: "TM" for trademarks and service marks and ® for registered marks. The symbol must be used the first time the Mark is introduced in a document. If the document is lengthy, it is advisable that the symbols be used at the beginning of each new section of the document, or at other appropriate intervals.

The Mark must always appear in exactly the same format without any variations. For example, DUS Data Connection® should always appear as such and not be referred to as DUS DC interchangeably.

**Section 514.04. Termination of License**

The license to use our Marks will terminate automatically when the Lender Contract is terminated, regardless of which party initiates the termination, and regardless of the reason for the termination. Fannie Mae may also terminate the license to use the Marks in connection with a material breach of the Lender Contract or the terms and conditions of this trademark license, even if Fannie Mae decides not to terminate the Lender Contract. If Fannie Mae suspends a Lender's selling arrangement, the Lender's right to use Marks in connection with its Mortgage Loan origination and selling activities also is suspended.

**Section 515. Press Releases/Advertising Material (08/25/14)**

The Lender may develop and issue advertising material related to the Fannie Mae products offered by the Lender; however, any press release or other material intended for public distribution (such as advertisements, newspaper or magazine copy, newsletters, or web site copy) in which Fannie Mae is mentioned must be approved by Fannie Mae prior to any such publication or distribution.

Private advertisements (such as pamphlets or handouts, or materials intended for distribution only within the Lender’s organization) do not require prior approval by Fannie Mae.
Part II – Lender Contractual Relationship

Chapter 6 – Loss Sharing and the Appraisal Process
Following a Foreclosure Event

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Chapter 6 – Loss Sharing and the Appraisal Process
Following a Foreclosure Event

Section 601. General (10/24/16)

This Chapter applies to any Mortgage Loan that is subject to Loss Sharing. Capitalized terms in this Chapter have the meanings ascribed to them in the Master Loss Sharing Agreement or in the Guide, as applicable. In the event of a conflict between the Master Loss Sharing Agreement and the Guide, the Master Loss Sharing Agreement will control.

Section 602. Modified Risk Loss Sharing (10/24/16)

The Lender may request Modified Risk Loss Sharing, or Fannie Mae may impose Modified Risk Loss Sharing on the Lender for a specific Mortgage Loan or for all Mortgage Loans purchased by Fannie Mae from that Lender. All Modified Risk Loss Sharing must be approved in advance by Fannie Mae. Any Mortgage Loan with FHA Risk Sharing may have further Modified Risk Loss Sharing if approved in advance by Fannie Mae.

At delivery, the Allocable Percentage for the Modified Risk Loss Sharing Mortgage Loan (and FHA Risk Sharing, if applicable) must be indicated on the Mortgage Loan Certificate executed by both the Lender and Fannie Mae.

Section 603. Appraisal Process (10/24/16)

Section 603.01. General

Each Appraisal must comply with the requirements of the Guide and the Master Loss Sharing Agreement. As used in this Chapter, a “manifest error of fact” refers solely to a factual error or omission by the appraiser (such as a math error or an inaccurate reference to the county or other jurisdiction of the Property location), and not to any disagreement with the appraiser’s discretionary decisions or determinations (such as the appraiser’s use of a particular capitalization rate, comparable properties, or market adjustments).

Section 603.02. Approved Appraisers

Each appraiser engaged to prepare an Appraisal pursuant to this Chapter must be approved by Fannie Mae. Periodically, the Lender must submit the names and, if requested by Fannie Mae, qualifications of its preferred appraisers to Fannie Mae for approval. Fannie Mae and the Lender each will maintain a current list of all Approved Appraisers who may provide appraisals under this Chapter.
Section 603.03. Requirements Applicable to All Appraisals

The following applies to any Appraisal obtained pursuant to this Chapter.

- Each Appraisal and appraiser must comply with the requirements of Part IIA, Section 310 of the Guide.
- The Lender must provide the Appraiser Engagement Instruction Form (Form 4825) when engaging an appraiser to perform an initial Appraisal.
- Fannie Mae will use Engagement Letter for Appraiser (Form 4823 or 4826) or Engagement Letter for Review Appraiser (Form 4824) to engage an appraiser performing an initial Appraisal or a subsequent Appraisal (as applicable).
- All communication with a jointly engaged appraiser regarding the valuation of the Property must include joint participation by members of the appraisal review groups from both Fannie Mae and the Lender.
- If the Property has unused Low Income Housing Tax Credits or other tax credits that transferred to Fannie Mae as a result of a Foreclosure Event, the Asset Value as of the Asset Valuation Date will be the greater of (i) the value of the Property “as restricted”, plus the value of the unused tax credits, or (ii) the “as-is” market value of the Property. Fannie Mae and the Lender will engage either the appraiser or another third-party to value such unused tax credits.
- Both Fannie Mae and the Lender must use an independent appraisal review group to allow appropriate communication with the appraisers, and to ensure consistent valuation practices and quality control. The appraisal review group may be either:
  - employees of Fannie Mae or the Lender, such as multifamily mortgage underwriters, who are not required to hold state appraisal licenses or certifications, but who are independent from their employers’ asset management and special servicing functions; or
  - an independent third-party appraisal firm.
- Fannie Mae and the Lender will provide to each engaged appraiser the most recent of the Property’s engineering, environmental, and Property Condition Assessment reports; each of which will be obtained jointly using the standard Engagement Letter for Engineering Consultant (Form 4821) or Engagement Letter for Environmental Consultant (Form 4822).
- If the Foreclosure Event is delayed, or if the Asset Valuation Date is not within 90 days after the date of the Appraisal that determines the Asset Value for Loss Sharing, either Fannie Mae or the Lender may require that the Appraisal be updated to reflect the Property’s value as of the Asset Valuation Date. Any Property Condition Assessment or Phase I Environmental Site Assessment used
for the first Appraisal may be updated if either Fannie Mae or the Lender requires the Appraisal to be updated.

Following the receipt by the Lender of the Appraisal Notice referred to in this Chapter, if the Lender fails to cause an Appraisal to be conducted in accordance with the applicable timeline for the Single Appraisal Approach or the Dual Appraisal Approach, the Property’s Appraised Value will be determined exclusively by an appraiser selected by Fannie Mae, and the Lender will be deemed to have waived any right to challenge such valuation. Updates required due to material changes in market or Property conditions, including, but not limited to, changes in access and control of the Property, will be addressed on a case by case basis.

Nothing shall prohibit Fannie Mae from ordering its own Appraisal, Property Condition Assessment, or Phase I Environmental Site Assessment in conjunction with its activities as the Special Servicer for the Mortgage Loan (e.g., for litigation contesting the Property’s Appraised Value, to determine foreclosure bidding strategy, in connection with a Borrower’s bankruptcy action, or other similar needs). However, any Appraisal, Property Condition Assessment, or Phase I Environmental Site Assessment obtained to determine the Asset Value must be obtained in accordance with Section 603 of this Chapter.

**Section 603.04. Appraisal Notice and Election of Appraisal Methodology**

If an Appraisal is required to determine the Property’s Asset Value for any reason, including the commencement of the process described in Part V, Chapter 7 in connection with a Foreclosure Event, Fannie Mae will notify the Lender (the “Appraisal Notice”).

Within 4 Business Days after receipt of the Appraisal Notice from Fannie Mae, the Lender must elect, by written notice (e.g., e-mail) to its Fannie Mae Representative in Special Asset Management, to use either the Single Appraisal Approach or the Dual Appraisal Approach. Once made, the Lender’s election will be binding on the Lender and Fannie Mae with respect to that Property and Mortgage Loan, and may not be changed unless mutually agreed upon in writing.

If the Lender fails to elect an Appraisal approach within the allotted time period, the Single Appraisal Approach will be used. However, if the Lender elects the Single Appraisal Approach, and Fannie Mae and the Lender are unable to jointly select and engage an appraiser as required by Section 603.03 of this Chapter, the Dual Appraisal Approach will be used.

**Section 604. Single Appraisal Approach (10/24/16)**

This Section outlines the recommended timeline and process to obtain an Appraisal using the Single Appraisal Approach, as further described in the Master Loss Sharing Agreement.
Several variables may alter this timeline; however, the objective is to obtain a final Appraised Value as of the Asset Valuation Date.

Section 604.01. Single Appraisal Approach Timeline

(a) Fannie Mae will order any required Property Condition Assessment or Phase I Environmental Site Assessment within 4 Business Days after the Appraisal Notice, using the Engagement Letter for Engineering Consultant (Form 4821) or the Engagement Letter for Environmental Consultant (Form 4822).

(b) The Lender will submit to Fannie Mae a short list of 2 or 3 preferred appraisers from the Lender’s list of Approved Appraisers.

(c) Fannie Mae will select an appraiser from the Lender’s short list within 8 Business Days after its Appraisal Notice, and the appraiser will be engaged jointly by Fannie Mae and the Lender pursuant to the standard Engagement Letter for Appraiser (Joint Engagement) (Form 4823). Fannie Mae and the Lender will provide the appraiser with all appropriate information reasonably required to complete the Appraisal in a timely fashion.

(d) The appraiser should be instructed to deliver the draft Appraisal within 20 Business Days after engagement.

Section 604.02. Draft Appraisal Review

(a) Fannie Mae and the Lender will each complete a review of the draft Appraisal within 10 Business Days after receipt. A joint conference call may be held with the appraiser, if requested by either Fannie Mae or the Lender. If either Fannie Mae or the Lender determines it is necessary, review comments and pertinent factual information will be provided to the appraiser and the other party. The joint conversation and information delivery are expected to occur within 15 Business Days after receipt of the draft Appraisal.

(b) The appraiser should be instructed to deliver the revised draft Appraisal within 5 Business Days of receipt of comments and information.

(c) Fannie Mae and the Lender will each complete a review of the revised draft Appraisal within 5 Business Days after receipt.

Section 604.03. Acceptable Draft Appraisal

If the draft Appraisal is acceptable to both Fannie Mae and the Lender, the draft Appraisal will be finalized and the final Appraised Value will be the Asset Value. Prior to issuing the final Appraisal, the appraiser may address any factual errors or other issues that both
parties agree should not materially impact the Appraised Value. The appraiser will be expected to deliver the final Appraisal within 5 Business Days of the request for the final Appraisal.

Section 604.04. Non-Acceptable Draft Appraisal

(a) If either Fannie Mae or the Lender does not accept the draft Appraisal and believes that discussions with the appraiser would not result in an acceptable Appraisal, notice will be given to the other party that the Appraisal is unacceptable. Within 8 Business Days after either party receives such notice:

- a second appraiser will be selected by Fannie Mae from the Lender’s list of Approved Appraisers;
- the second appraiser will be engaged jointly by Fannie Mae and the Lender pursuant to the standard Engagement Letter For Review Appraiser (Joint Retention) (Form 4824); and
- the first Appraisal, written comments by Fannie Mae and the Lender (if any), and pertinent Property information will be shared with the second appraiser.

(b) The second appraiser will examine the first Appraisal, and then initiate a joint call with representatives of Fannie Mae and the Lender within 10 Business Days after delivery of the first Appraisal and supplemental information.

(c) The second appraiser will develop an independent opinion of the Asset Value as of the Asset Valuation Date, and prepare an Appraisal consistent with the Engagement Letter for Review Appraiser (Joint Retention) (Form 4824). The second appraiser should be instructed to deliver the Appraisal within 15 Business Days after the joint conference call.

(d) The second Appraisal will be accepted, and the Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender, unless there is a manifest error of fact in the second Appraisal.

(e) If either Fannie Mae or the Lender determines that the second appraiser has made a manifest error of fact, the correct factual information will be provided to the appraiser and the other party within 10 Business Days after receiving the second Appraisal.

(f) The second appraiser will be expected to deliver a corrected final Appraisal within 5 Business Days after being advised of a manifest error of fact in the second Appraisal.
The corrected final Appraisal will be accepted, and the final Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender.

Section 605. Dual Appraisal Approach (10/24/16)

This Section outlines the recommended timeline and process to obtain an Appraisal using the Dual Appraisal Approach, as further described in the Master Loss Sharing Agreement. Several variables may alter this timeline; however, the objective is to obtain a final Appraised Value as of the Asset Valuation Date.

Section 605.01. Dual Appraisal Approach Timeline

(a) Fannie Mae will order any required Property Condition Assessment or Phase I Environmental Site Assessment within 4 Business Days after the Appraisal Notice, using the Engagement Letter for Engineering Consultant (Form 4821) or the Engagement Letter for Environmental Consultant (Form 4822).

(b) The Lender and Fannie Mae will each select and engage an appraiser from their individual lists of Approved Appraisers within 8 Business Days after the Appraisal Notice. The Lender will engage its appraiser pursuant to the standard Appraiser Engagement Instruction Form (Form 4825), and Fannie Mae will engage its appraiser pursuant to the standard Appraiser Engagement Letter for Appraiser (Fannie Mae Retention) (Form 4826).

(c) Each appraiser should be instructed to deliver a final Appraisal within 35 Business Days after both appraisers have been engaged. Fannie Mae and the Lender will share copies of their respective final Appraisals with each other.

Section 605.02. Average of Appraised Values

If the 2 Appraised Values differ by 10% or less, the average of the 2 Appraised Values will be the Asset Value for Loss Sharing.

Section 605.03. Third Appraisal

(a) If the 2 Appraised Values differ by more than 10%, within 4 Business Days after receipt of the final Appraisals:

■ a third appraiser will be selected by Fannie Mae from the Lender’s list of Approved Appraisers;
the third appraiser will be engaged jointly by Fannie Mae and the Lender pursuant to the standard Engagement Letter for Review Appraiser (Joint Retention) (Form 4824); and

the first 2 Appraisals, written comments by Fannie Mae and the Lender (if any), and pertinent Property information will be shared with the third appraiser.

(b) The third appraiser will initiate a joint conference call with representatives from Fannie Mae and the Lender to discuss the first 2 Appraisals within 10 Business Days after delivery of the first 2 Appraisals and Fannie Mae’s and the Lender’s comments.

(c) The third appraiser will develop an independent opinion of the Asset Value as of the Asset Valuation Date, and prepare an Appraisal consistent with the Engagement Letter for Review Appraiser (Joint Retention) (Form 4824). The third appraiser should be instructed to deliver the Appraisal within 15 Business Days after the joint conference call.

(d) The third Appraisal will be accepted and the Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender, unless there is a manifest error of fact in the third Appraisal.

(e) If either Fannie Mae or the Lender determines that the third appraiser has made a manifest error of fact in its Appraisal, the correct factual information will be provided to the third appraiser and the other party within 10 Business Days after receiving the third Appraisal.

(f) The third appraiser will be expected to deliver a corrected final Appraisal within 5 Business Days after being advised of a manifest error of fact.

(g) The corrected final Appraisal will be accepted, and the final Appraised Value will be the Asset Value for Loss Sharing, without further review or consent by either Fannie Mae or the Lender.
Part II – Lender Contractual Relationship

Chapter 7 – Monitoring of Lender Performance

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Chapter 7 – Monitoring of Lender Performance

Section 701. General Monitoring Approach (08/24/15)

Fannie Mae monitors Lenders and transactions to:

- identify deviations from this Guide or the Lender Contract;
- identify areas where the Lender’s policies, practices, or staffing deficiencies expose the Lender or Fannie Mae to risks;
- correct the Lender's practices or procedures;
- impose remedies; and
- identify areas in which improved guidance to the Lender should be provided.

To facilitate Fannie Mae’s monitoring and analysis, the Lender must:

- provide any requested information about the Lender, a transaction, or a Sponsor;
- provide the information in such format as may be requested by Fannie Mae to maintain a record sufficient to satisfy the requirements of Fannie Mae or its regulator; and
- provide the information within the specified time.

The Lender’s failure to meet the above requirements shall constitute a breach of the Lender Contract.

Section 702. Transaction Monitoring Reviews (08/24/15)

Fannie Mae’s transaction reviews include evaluating the performance of the Mortgage Loan, as well as the Lender's underwriting, delivery, and servicing practices, and may require the Lender to do 1 or more of the following:

- deliver to Fannie Mae the Mortgage Loan file, as well as records relating to the Lender’s general underwriting, delivery, and servicing practices;
- make some or all of the Mortgage Loan files available for review and inspection by Fannie Mae at the Lender's office;
- facilitate the scheduling of and accompany Fannie Mae on a site visit, or inspection of a Property, including inspections of occupied units; and
- make representatives available who are familiar with the Mortgage Loan, Property, and Lender practices, and who are prepared to answer questions that may arise.
Fannie Mae will use commercially reasonable efforts to notify the Lender in advance of any requests, and will make commercially reasonable efforts to accommodate the Lender’s scheduling, workload, and space constraints.

Section 703. Lender Monitoring Reviews (08/24/15)

Fannie Mae conducts reviews of all aspects of the Lender and its operations for compliance with this Guide and the Lender Contract. Reviews may include, but are not limited to:

- underwriting;
- committing;
- servicing;
- ownership and organizational structure;
- legal and regulatory requirements;
- staffing and training procedures;
- internal and independent audit reports;
- customer service to Borrowers;
- financial condition;
- vendor oversight; and
- other business activities.

Lender monitoring generally will be conducted at the Lender’s corporate headquarters, but may also be conducted at any of the Lender’s branch offices, or in multiple locations if necessary to gain sufficient access to facilities, records, or staff.

The Lender's Chief Underwriter must be available for the entirety of the review. Fannie Mae will make a reasonable effort to accommodate the Lender's scheduling, workload, and space constraints.

Section 704. Servicing Practices or Activities Monitoring Reviews (08/25/14)

Fannie Mae monitors the Lender's reporting, remitting, and custodial practices, and may perform in-depth reviews or audits of the Lender's accounting reports and financial records pertaining to Mortgage Loan servicing. These reviews may be performed separately or at the same time as the Lender monitoring reviews.
Section 705. Performance Monitoring (08/25/14)

In addition to other monitoring, Fannie Mae monitors the performance of the Lender's Mortgage Loan servicing portfolio over time. This monitoring involves reviewing the Lender’s exposure to individual Sponsors or geographic areas, as well as the aggregate risk from projected credit losses. Additional information relating to performance will be requested from the Lender, if needed.

Section 706. Monitoring Results; Reporting (08/24/15)

Fannie Mae will discuss the results of the monitoring with the Lender, and will provide a written draft of the findings prior to imposing any requirements for corrective action. The final written report will be issued to the Lender summarizing the findings and any corrective actions or improvements that are recommended or required in response to the identified deficiencies, if any. Fannie Mae may schedule interim or follow-up monitoring, as necessary.
# Part II – Lender Contractual Relationship

## Chapter 8 – Remedies

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Chapter 8 – Remedies

Section 801. General (08/24/15)

Under this Guide and the Lender Contract, Fannie Mae has the right to impose remedies under a variety of circumstances, including:

- the Lender’s failure to maintain financial or business eligibility;
- a deficiency in the Lender's performance that imposes greater risks on Fannie Mae than intended under the Lender Contract and this Guide; or
- failure of a Mortgage Loan to conform to the underwriting or servicing requirements in the Guide or the Lender’s representations and warranties.

In addition to any specific remedies stated in the Lender Contract, lesser remedies may be imposed at Fannie Mae’s sole discretion. Such remedies include the following categories:

- **Transaction Level Remedies** – address specific, egregious acts or omissions of the Lender that may result in an unacceptable level of credit risk, or improper pricing that does not reflect the level of return for the level of credit risk, arising from the purchase, servicing, or asset management of 1 or more Mortgage Loan.

- **Underwriting/Servicing Disciplinary Actions** – address an unacceptable general level of credit risk on a book of business resulting from the Lender’s practices and patterns of underwriting, use of waiver authority, pricing, or servicing behavior.

- **Financial/Business Eligibility Remedies** – address a material adverse change in the Lender’s financial or business condition, or in its operations.

Section 802. Imposing a Remedy (08/25/14)

Unless Fannie Mae, in its sole discretion, determines that immediate action is required to avoid conditions that could impair safety or health of tenants or deterioration of any Fannie Mae asset, prior to imposing a remedy, Fannie Mae will give the Lender written notice of:

- the circumstances giving rise to the remedy being imposed;
- the remedy being imposed; and
- any applicable conditions or actions that might allow the Lender to reduce or eliminate the remedy.

Within 10 Business Days after receipt of such notice, if the Lender disagrees with Fannie Mae's determination, the Lender must provide to Fannie Mae (i) a written explanation as to why it disagrees, and (ii) evidence of mitigation, if any.
If, in Fannie Mae's sole determination, the Lender's response does not alleviate Fannie Mae's concerns, or if the Lender fails to respond to the notice within 10 Business Days, then the remedy stated in the notice will become effective immediately upon expiration of the 10 Business Day period.

**Section 803. Transaction Level Remedies (08/24/15)**

Transaction level remedies may be imposed at any time after delivery of a Mortgage Loan to Fannie Mae. The extent of increased risk associated with Property operations, value, Sponsors, markets, or Property condition will determine the appropriate remedy. Transaction level remedies include, but are not limited to, 1 or more of the following:

- including the Mortgage Loan on the Watchlist;
- collecting monthly or quarterly financial reports from the Borrower;
- performing quarterly site inspections;
- ordering additional third party reports, such as engineering reports, appraisals, market studies, or environmental reports at the Lender’s expense;
- reinstating Replacement Reserve deposits previously waived;
- increasing loss sharing or Restricted Liquidity Requirements; and
- requiring the Lender to repurchase a Mortgage Loan.

**Section 804. Underwriting/Servicing Disciplinary Actions (08/24/15)**

Underwriting/servicing disciplinary actions may be imposed after evaluating representative samples of Mortgage Loan deliveries made by the Lender over a period of time. The frequency and severity of infractions, as well as the overall risk level and existence of substandard underwriting or servicing practices, will determine the appropriate remedies. Underwriting/servicing disciplinary actions include, but are not limited to, 1 or more of the following:

- requiring mandatory Lender training;
- requiring additional Mortgage Loan approval signature authority within the Lender’s organization;
- mandating the staffing of a quality control position;
- revoking certain Lender waiver authority;
- changing or revoking delegation thresholds for certain Mortgage Loan amounts, asset classes, executions, geographic areas, or pre-review requirements;
- increasing loss sharing/Servicing Fee split for books of business on a going forward basis, or new acquisitions;
requiring the Lender to repurchase any Mortgage Loan affected by the Lender’s material failure to service the Mortgage Loan in accordance with the terms and conditions of the Guide; and

terminating the Lender’s ability to sell or service Fannie Mae Mortgage Loans.

Section 805. Financial/Business Eligibility Remedies (08/24/15)

Financial/business eligibility remedies may be imposed after periodic monitoring of the Lender’s performance, review of the Lender’s financial information, notice of changes delivered pursuant to Part II, Section 509, or otherwise, if Fannie Mae determines that the Lender’s financial condition has experienced a material adverse change. The severity and circumstances of the change, as well as the Lender’s overall risk level, will determine the appropriate remedies necessary to continue the Lender’s eligibility to sell or service Fannie Mae Mortgage Loans.

Changes that may lead to the imposition of financial/business eligibility remedies include, but are not limited to:

- a breach by the Lender of a warehouse line or other credit facility that constitutes an event of default under such facility and results in the creditor’s exercise of remedies;

- a breach by any Lender Affiliate of any obligation to Fannie Mae, including a guaranty, if the breach constitutes an event of default under such obligation and results in Fannie Mae’s exercise of remedies;

- a breach by the Lender of any agreement with another creditor, where the aggregate amount of such breaches under agreements with one or multiple creditors exceeds 3% of the Acceptable Lender Net Worth and extends beyond any applicable cure period;

- a decline in the Acceptable Lender Net Worth by more than 25% over a single quarterly reporting period, or more than 40% over two consecutive quarters;

- four or more consecutive quarterly losses recorded by the Lender, together with a decline in the Acceptable Lender Net Worth of 30% or more during the same period; or

- the aggregate UPB of all outstanding Fannie Mae repurchase requests of the Lender exceeds 25% of the Acceptable Lender Net Worth as of the latest quarter’s end.

Financial/business eligibility remedies include, but are not limited to, 1 or more of the following:

- increasing Restricted Liquidity Requirements;

- increasing Operational Liquidity Requirements;
- offsetting amounts owed by Fannie Mae to the Lender against amounts owed by the Lender to Fannie Mae;
- creating a funded indemnity or escrow for payment of losses or risks identified by Fannie Mae in addition to risks covered by Restricted Liquidity;
- requiring the Lender to repurchase Mortgage Loans to reduce the Lender’s loss sharing exposure to a level commensurate with the Lender’s financial status; and
- modifying the Lender’s loss sharing on existing Mortgage Loans to reduce the Lender’s loss sharing exposure to a level commensurate with the Lender’s financial status.

Section 806. Adding and Removing Remedies (08/25/14)

Fannie Mae reserves the right, in its sole discretion, to:
- impose other remedies if additional adverse information is revealed regarding a specific transaction, or if issues with the Lender's performance arise; or
- revoke any remedy if the risks have been otherwise mitigated.

Section 807. Remedies are Distinct and Cumulative (08/25/14)

All rights and remedies provided for in this Guide are distinct and cumulative, not only as to each other, but as to any rights or remedies contained in the Lender Contract or afforded by law or equity. The rights and remedies may be exercised together, separately, or successively, and are for the sole benefit of Fannie Mae and any successor or assign of Fannie Mae.
Part IIIA – Base Underwriting Requirements

Chapter 1 – The Lender

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Chapter 1 – The Lender

Section 101. Lender Responsibility - Guide Compliance and Prudent Underwriting (09/16/13)

Fannie Mae requires compliance with the specific requirements of this Guide. During underwriting, the Lender is expected to analyze all reasonably identifiable strengths and weaknesses of the proposed transaction in its Transaction Approval Memo. All factors that could impact the transaction during the term of the Mortgage Loan or at the Maturity Date of the Mortgage Loan must be reflected appropriately and mitigated in the ultimate underwriting conclusions and approved Mortgage Loan structure. Among other things, the Lender must address:

- the Property’s financial performance and trends;
- the Property’s current physical condition and expected condition over the term of the Mortgage Loan;
- the ability of the Property to be refinanced at the Maturity Date of the Mortgage Loan;
- the Borrower’s, Key Principals’ and Principals’ financial capacity and experience; and
- the Property market’s performance and trends.

The quality and thoroughness of the Lender’s analysis, and the appropriateness of the type and amount of adjustments made in the underwriting, will be considered by Fannie Mae:

- during the monitoring process; and
- when exercising the remedies provided for elsewhere in this Guide or in the Lender Contract.

Section 102. Lender Responsibility - Outside Parties and Non-Employees (10/13/14)

Section 102.01. Outside Parties

A. Reports Prepared for the Lender

The Lender may use Outside Parties provided the Lender and Outside Party comply with the requirements of Part II, Section 511. It is the Lender’s responsibility to ensure that all materials prepared by the Outside Parties are complete, adequate for their intended purpose, and comply fully with the requirements of this Guide.
B. Reports Not Prepared for the Lender

Reports that were (i) prepared by Outside Parties in anticipation of a transaction that did not close, and (ii) contracted by a lender or financial institution with no economic interest in the Property for use in such anticipated transaction, may be used by the Lender so long as the Lender:

- independently verifies that the qualifications of the Outside Party conform to the requirements set forth in this Guide;
- thoroughly reviews the contents of the report;
- ensures that the Outside Party who prepared the report had no financial interest in the transaction, the Property, the Borrower or any Affiliate of the Borrower; and
- obtains an assignment of the report from such other lender or financial institution, if required, and an affirmation from the Outside Party to the Lender which provides, among other things, that the Lender may rely on the contents of the report.

Section 102.02. Non-Employees

A. Non-Restricted Functions

The following functions are Non-Restricted Functions that may be performed by Non-Employees of the Lender:

- verifying information, including, but not limited to, inspecting the Property, identifying and inspecting rent comparables, verifying rent rolls and performing credit checks;
- analyzing information, including, but not limited to, spreading numbers from operating statements and making objective and subjective decisions about the information;
- preparing the Transaction Approval Memo; and
- preparing the Loan Documents.

B. Conditions for Performing Underwriting Non-Restricted Functions

If the Lender wishes to contract with a Non-Employee to perform one or more of the Non-Restricted Functions described in Section 102.02.A of this Chapter, the following conditions must be satisfied in connection with any such arrangement.

- The Non-Employee must meet the standards for professional qualifications and experience that the Lender has established for its own Employees who are engaged in similar underwriting functions.
The Lender must obtain and have on file general background information regarding the Non-Employee and the services provided as well as the Non-Employee’s resume, statement of qualifications and appropriate references.

The compensation to be paid to the Non-Employee may not be tied in any way to the approval or closing of the Mortgage Loan and the Non-Employee must have no financial interest in the Mortgage Loan, the Property, the Borrower, or any Affiliate of the Borrower.

Any reports prepared by the Non-Employee must be reviewed by the Lender’s Chief Underwriter.

C. Non-Employee Contract Requirements

Recognizing the Lender’s responsibilities, each contract or arrangement with a Non-Employee must provide the following.

- The Non-Employee is prohibited from using Fannie Mae’s name or logo in any manner, or indicating implicitly or explicitly that the Non-Employee is authorized to perform services for Fannie Mae or originate Mortgage Loans for sale to Fannie Mae or is otherwise a participant in Fannie Mae products.
- The Non-Employee will perform only those services that are specifically permitted by this Guide and will comply with the requirements set forth above in this Section.

Section 103. Lender Responsibility – Employees (07/15/16)

Section 103.01. Restricted Functions - Underwriting

The following underwriting functions are Restricted Functions that must be performed by the Lender’s employees whose primary responsibility is loan underwriting:

- contracting for third party reports;
- determining the overall underwriting conclusions;
- structuring the transaction;
- approving the transaction; and
- managing and coordinating the Mortgage Loan closing, and reviewing and approving the Loan Documents (however, Lender may use outside legal counsel to assist with these functions).

Loan originators, Correspondents, brokers or any other person or firm whose compensation is directly tied to the approval or closing of a Mortgage Loan do not qualify to perform Restricted Functions.
Section 103.02. Role of the Chief Underwriter

The Chief Underwriter must:

- review all information obtained for adequacy, completeness, and compliance with the requirements of this Guide and identify and resolve any issues raised by such materials;
- ensure that additional information is obtained, as necessary, to resolve issues raised during underwriting;
- determine the Underwriting Value and Loan to Value Ratio;
- determine the appropriate Underwritten NCF and Underwritten Debt Service Coverage Ratio;
- determine the Mortgage Loan amount; and
- complete or review the Transaction Approval Memo and Underwriting Data Form (Form 4662) (the Transaction Approval Memo and Underwriting Data Form must contain the Chief Underwriter’s approval of the Mortgage Loan).

Section 103.03. Delegation of Chief Underwriter Responsibilities

The Chief Underwriter may delegate to other employees of the Lender the tasks identified in this Part so long as those employees of the Lender have as their primary responsibility loan underwriting. The tasks may not be delegated to anyone whose compensation is directly tied to the approval or closing of a Mortgage Loan. The Chief Underwriter must ensure that:

- the delegated tasks will be performed with industry standard levels of competency; and
- the Chief Underwriter is directly responsible for the supervision of such Employee.

Section 103.04. Documentation of Chief Underwriter’s Delegated Responsibilities

If the Chief Underwriter delegates the Chief Underwriter’s responsibilities to other Employees, the Lender must:

- document the process by which the delegation will take place;
- document the quality controls that will be used in the process; and
- retain all documentation in the Lender’s business records.
Section 103.05. Lender’s Loan Committee

Mortgage Loan approvals or denials by the Lender’s Loan Committee or other approving body or process must be documented pursuant to the Lender’s internal approval process and retained in the Lender’s official business records.

Section 104. Lender’s Loan Application and Loan Commitment (03/31/14)

The Lender’s loan application form must include an indication of whether the Borrower has or intends to obtain Preferred Equity or Mezzanine Financing as part of its organizational or capital structure. The loan application form must also inform the Borrower that the Lender’s approval of the Mortgage Loan may be delayed, or any prior approval revoked, if the Borrower initially indicates that it does not have or does not intend to obtain Preferred Equity or Mezzanine Financing, but later decides to obtain or seek Preferred Equity or Mezzanine Financing.

The Lender must issue a written loan or rate lock commitment to the Borrower, and the Borrower must execute the written loan or rate lock commitment. The Lender’s loan or rate lock commitment issued to the Borrower must specify:

- the Key Principals of the Borrower and any other criteria required for the Mortgage Loan closing and funding that the Lender deems appropriate;
- the requirement that the Borrower deposit with the Lender the Good Faith Deposit required by Part IVA of this Guide;
- that the Borrower shall be liable to the Lender for all damages, obligations, and liabilities relating to a failed Delivery of the Mortgage Loan, which damages must be in an amount at least equal to all economic obligations of the Lender pertaining to the Rate Lock; and
- the required prepayment terms, including any yield maintenance or prepayment premium, for the prepayment of the Mortgage Loan prior to the Maturity Date.

If the loan or rate lock commitment issued to the Borrower survives the closing of the Mortgage Loan, such loan or rate lock commitment must include a statement that if there is any conflict between the loan or rate lock commitment and the Loan Documents, then the terms and provisions of the Loan Documents shall prevail.

Notwithstanding anything contained in the Lender’s loan or rate lock commitment with the Borrower, the Lender is liable to Fannie Mae for a failed Delivery of an acceptable Mortgage Loan pursuant to this Guide and the Lender’s Commitment with Fannie Mae.
# Part IIIA – Base Underwriting Requirements

## Chapter 2 – The Mortgage Loan

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Chapter 2 – The Mortgage Loan

Section 201. General (11/04/13)

Section 201.01. Lender Delegated Authority

The Lender Contract requires the Lender to underwrite Mortgage Loans in accordance with the Guide and the Multifamily Underwriting Standards. Any fully-delegated Mortgage Loan underwritten in accordance with the Guide and the Multifamily Underwriting Standards is eligible for Purchase by Fannie Mae and the Lender may request a Commitment without any additional review or approval by Fannie Mae of the Lender’s underwriting.

Section 201.02. Lender Non-Delegated Authority

For any Mortgage Loan designated as a Pre-Review Mortgage Loan in the Multifamily Underwriting Standards, the Lender must obtain the prior approval of the Fannie Mae Deal Team before the Lender may request a Commitment.

For any Mortgage Loan that is not a Pre-Review Mortgage Loan but which contains terms that deviate in any respect from the requirements of the Guide, the Lender first must obtain a Waiver approval from the Fannie Mae Deal Team for such deviation prior to requesting a Commitment.

Section 202. Maximum Mortgage Loan Amount (11/04/13)

The maximum amount of the Mortgage Loan must be determined in accordance with the Multifamily Underwriting Standards. While the determination of the maximum loan amount on a per unit basis is delegated to the Lenders, when underwriting transactions for possible purchase by Fannie Mae, Lenders must be mindful of Fannie Mae’s mission to provide affordable multifamily housing for low-, moderate- and middle-income families and assist in community development.

Section 203. Registration of Mortgage Loans (11/04/13)

The Lender must register all Mortgage Loans in the Deal Management System and indicate whether:

- the Mortgage Loan will be a Pre-Review Mortgage Loan, or
- any feature of the Mortgage Loan will require Fannie Mae to approve a Waiver for an exception to the Guide requirements.
Section 204. Delegated Mortgage Loans (11/04/13)

The Lender has fully-delegated authority to underwrite and request a Commitment for the delivery of a Mortgage Loan for Purchase by Fannie Mae if:

- the Mortgage Loan is not a Pre-Review Mortgage Loan under the Multifamily Underwriting Standards; and
- the Mortgage Loan complies in all respects with the requirements of the Guide.

Section 205. Non-Delegated Mortgage Loans (01/23/17)

Section 205.01. Overview

The Lender does not have fully-delegated authority to underwrite and request a Commitment for the delivery of a Mortgage Loan for Purchase by Fannie Mae if:

- the Mortgage Loan is a Pre-Review Mortgage Loan under the Multifamily Underwriting Standards; or
- the Mortgage Loan fails to fully comply with the requirements of the Guide.

In either such event, the Lender may deliver the Mortgage Loan only with the prior approval of the Fannie Mae Deal Team in accordance with the requirements of this Section 205.

Section 205.02. Pre-Review Mortgage Loans

All Pre-Review Mortgage Loans must be approved in writing by the Fannie Mae Deal Team before the Lender may seek a Commitment for the Mortgage Loan. To obtain such approval, the Lender must submit a Pre-Review request to the Fannie Mae Deal Team through DUS Gateway which includes, at a minimum:

- a loan-sizing spreadsheet that includes the preliminary Underwritten NCF and a refinance risk analysis;
- any Waiver and/or Pre-Review requests;
- any required data fields and loan options based on the proposed structure of the transaction; and
- any additional information requested by Fannie Mae to evaluate the transaction.

All material submitted to support a Lender’s Pre-Review request must have been reviewed and approved by the Chief Underwriter in advance of submission to the Fannie Mae Deal Team.

Following its review, the Fannie Mae Deal Team will provide a written response to the Lender’s Pre-Review request. Depending on the completeness and acceptability of the Lender’s submission, such response will:
provide a Pre-Review approval for the Lender to underwrite the Mortgage Loan and request a Commitment on the terms proposed with no further approvals required prior to Purchase by Fannie Mae;

■ authorize the Lender to proceed with underwriting the Mortgage Loan on the proposed terms and pricing, but with resubmission required on completion of full underwriting in order for the Lender to receive a Pre-Review approval to request a Commitment for the Mortgage Loan; or

■ decline to provide a Pre-Review approval for the Lender to obtain a Commitment for the Mortgage Loan.

If Fannie Mae’s response to the Lender requires resubmission on completion of full underwriting of the Mortgage Loan, additional underwriting guidance to the Lender for the Mortgage Loan may be included in the response. The Fannie Mae response may also indicate that final Pre-Review approval is conditioned on Fannie Mae’s review of additional information, analysis or due diligence. If so conditioned, upon review of such information, the amount, structure, or price of the Mortgage Loan may be adjusted by Fannie Mae, or Fannie Mae may decline to approve the Lender to obtain a Commitment for the Mortgage Loan. If Fannie Mae’s response to the Pre-Review request requires the Lender to submit a complete underwriting package to the Fannie Mae Deal Team for final review and approval, the Lender must deliver the full underwriting package early enough to allow Fannie Mae a reasonable period of time to review the package. The Fannie Mae Deal Team will provide written notice of the Pre-Review approval at such time as the Lender is approved to complete the underwriting, request a Commitment and originate the Mortgage Loan with the Borrower and deliver it for Purchase by Fannie Mae. Such Pre-Review approval will include the Fannie Mae Deal Team’s approval or denial of any Waiver requests, and the Mortgage Loan must be delivered in accordance with the requirements of the Guide, as modified by any approved Waiver requests.

Section 205.03. Other Non-Delegated Loans; Waiver Requests for Exceptions to Guide Requirements

Mortgage Loans that are not Pre-Review Mortgage Loans but which deviate in any respect from the requirements of the Guide are not fully delegated to the Lender under the Lender Contract and the Guide and require the Fannie Mae Deal Team’s prior written approval of such terms. For each non-delegated term of the Mortgage Loan, the Lender must submit a request through the Deal Management System for a Waiver to deliver outside the Lender-delegated authority. The Lender may not obtain a Commitment for the Mortgage Loan until the Fannie Mae Deal Team has approved or denied all Waivers in the Deal Management System, and the Mortgage Loan, as delivered, may include only the approved Waivers.
Section 206. Properties Subject to Previous Tax-Exempt Bond Financing (10/13/14)

If a Property is securing or has secured financing through an issuance of tax-exempt Bonds, the Property may be subject to requirements, restrictions or other features that survive repayment of the bond financing. Such surviving features may include, but are not limited to:

- rent, income, transfer or other restrictions;
- master lease requirements in aid of supporting such restrictions; and
- indemnification or other requirements that could (i) burden a future owner, (ii) depress or constrain the value or marketability of the property, or (iii) prevent or inhibit foreclosure of a lien securing new financing.

If the Lender intends to secure a Mortgage Loan with a Property that previously secured tax-exempt Bonds, the Lender must determine whether the Property is subject to any surviving features that must be taken into account in underwriting and documenting the Mortgage Loan. If a Property secures an issuance of tax-exempt Bonds that is being retired with the proceeds of the Mortgage Loan, the Lender must review the bond financing documents and prepare a written summary of the bond financing that (i) explains why the surviving features will not have a materially adverse impact on the Mortgage Loan, the Lender or Fannie Mae, and (ii) gives an overview of the redemption process associated with retiring the Bonds. The Lender must submit this summary and any related Loan Document modifications as a Waiver request through the Deal Management System.

Section 207. Letters of Credit (11/16/15)

Section 207.01. General Requirements

Fannie Mae must approve in writing any new or renewal letter of credit prior to it being (i) accepted by the Lender as collateral for a Mortgage Loan (whether the letter of credit is issued for the benefit of the Lender or for the benefit of Fannie Mae), or (ii) delivered by the Lender to Fannie Mae as beneficiary to satisfy the Lender Reserve requirements of such Lender set forth in Part II, Chapter 4. To request Fannie Mae approval to use a letter of credit, the Lender must complete and deliver to partner_risk_management@fanniemae.com a Letter of Credit Authorization and Certification Form (Form 4664). The Letter of Credit Authorization and Certification Form will indicate:

- whether such letter of credit is a new letter of credit, or whether it will renew or confirm an existing letter of credit;
- the obligation secured by such letter of credit (e.g., collateral for a Mortgage Loan or to meet the Lender Reserve);
if such letter of credit is taken as collateral for a Mortgage Loan by the Lender, whether such letter of credit is required by the Guide, or is additional collateral mandated by the Lender in addition to that required by the Guide; and

if such letter of credit is taken as collateral for a Mortgage Loan by the Lender, the Loan Document setting forth the requirements of such letter of credit (accompanied by the Loan Document requiring or permitting the delivery of the letter of credit).

All letters of credit required or permitted to be provided under the Guide or the Loan Documents must, at issuance and throughout the term of the letter of credit:

- meet the requirements set forth in the Multifamily Letter of Credit Form (Form 4663), and all sight drafts must be in the form included in the Multifamily Letter of Credit Form (Form 4663);
- name Fannie Mae as the sole beneficiary;
- have a minimum term of 1 year; and
- be issued or confirmed by a financial institution that satisfies the letter of credit issuer requirements set forth in Section 207.02.

Fannie Mae, in its sole discretion, may prohibit the Lender from obtaining a letter of credit (or a confirming letter of credit) from a specific financial institution.

A letter of credit approved by Fannie Mae as collateral for a Mortgage Loan must be sent by the Lender to Multifamily Operations at the following address, for delivery on the Business Day following receipt of the letter of credit by the Lender.

Fannie Mae
3900 Wisconsin Avenue, NW
Mailstop 8H / 310
Washington, D.C. 20016-2892
Attention: Manager, Multifamily Operations – Recourse and Collateral

A letter of credit approved by Fannie Mae to satisfy the Lender Reserve requirements of such Lender must be sent directly by the issuer to Fannie Mae at the following address.

Fannie Mae
c/o U.S. Bank National Association
One Federal Street, 3rd Floor
Boston, MA 02110
Attention: Fannie Mae DUS Account Officer
Section 207.02. Letter of Credit Issuer Requirements; Issuer Rating

A. Letter of Credit Issuer Requirements

Any letter of credit required or permitted to be delivered under the Guide or the Loan Documents must be issued or confirmed by a financial institution that meets the rating requirements set forth below. A letter of credit may be issued by an Affiliate of the Borrower or the Lender only if such letter of credit is confirmed by a financial institution that is not:

- an Affiliate of the Borrower or the Lender; or
- in the case of a letter of credit provided to meet the Lender Reserve requirements, either the Collateral Custodian or an Affiliate of the Collateral Custodian.

B. Issuer Rating

Any letter of credit required or permitted to be delivered under the Guide or the Loan Documents must be issued or confirmed by a financial institution that has:

- a Standard and Poor’s long-term issuer rating of:
  - "A+" or better; or
  - “A”, and the financial institution has a “stable” or “positive outlook” rating; and
- a Moody’s long-term issuer rating of:
  - "A1" or better; or
  - “A2”, and the financial institution has a “stable” or “positive outlook” rating.

The issuing or confirming financial institution must maintain both of these minimum ratings throughout the term of the letter of credit and at the time of any renewal, replacement or amendment of the letter of credit. If the issuing institution fails to maintain both of these minimum ratings throughout the term of the letter of credit, or if the issuing institution maintains the minimum rating but the stable or positive outlook is changed to a “negative outlook” or “on watch for downgrade”, the letter of credit must be replaced with one issued or confirmed by financial institution with an acceptable rating.

Section 207.03. Verification of Issuer Rating

For any outstanding letter of credit, the Lender must verify the rating of the issuer or confirming financial institution not less than annually from the original date of issuance, and upon any renewal, replacement, or amendment of the letter of credit. The Lender must contact Fannie Mae at multifamily_bizops@fanniemae.com promptly if the ratings of the issuer or confirming financial institution fall below the requirements of this section. Fannie Mae, in its sole discretion,
may require that the Borrower provide a replacement or confirming letter of credit from an acceptably rated issuer if the ratings fall below the requirements of this section.

Any Loan Document requiring or permitting the delivery of a letter of credit as collateral for a Mortgage Loan must require that the letter of credit issuer (or confirming financial institution) continue to meet the ratings requirements of this section and provide Fannie Mae the right to require the Borrower to provide a replacement or confirming letter of credit if the issuer (or confirming financial institution) fails to meet the requirements of this section at any time during the term of the letter of credit.

Section 207.04. Property May Not Be Issuer Collateral for Letter of Credit

The letter of credit issuer may not collateralize the letter of credit with any Lien against the Property or against any personal property of the Borrower that secures the Mortgage Loan.

Section 207.05. Letter of Credit Authorization and Certification

The original completed Letter of Credit Authorization and Certification Form (Form 4664) must be included in the Mortgage Loan Delivery Package. The Lender must also retain a copy of the Letter of Credit Authorization and Certification Form as part of its Servicing File.

Section 207.06. Lender’s Ability to Draw on Letter of Credit

Although Fannie Mae is required to be the sole beneficiary of a letter of credit delivered as collateral for a Mortgage Loan, the Lender, acting upon written direction from Fannie Mae, may present a sight draft instructing the issuing bank to draw on the letter of credit and deposit the proceeds in an account designated by Fannie Mae.

Section 208. Transactions with Fannie Mae Debt and Equity Interests (11/04/13)

Section 208.01. Transactions Funded with Tax-Exempt Bond Proceeds

If a Mortgage Loan will be funded with tax-exempt bond proceeds and the Property securing the Mortgage Loan qualifies for Low Income Housing Tax Credits (“LIHTC”), the Lender must confirm that:

- Fannie Mae does not own and does not intend to acquire an interest in the tax-exempt Bonds if Fannie Mae owns or plans to acquire a direct or indirect equity interest in the Borrower; and
Fannie Mae does not own and does not intend to acquire a direct or indirect equity interest in the Borrower if Fannie Mae owns or plans to acquire an interest in the tax-exempt Bonds.

Section 208.02. Fannie Mae Credit-Enhanced Tax-Exempt Bond Issuance

If Fannie Mae credit enhances tax-exempt Bonds issued to fund a Mortgage Loan, the Lender must confirm that Fannie Mae does not also own or intend to acquire a direct equity interest in the Borrower. If Fannie Mae owns or intends to acquire an indirect equity interest in the Borrower through a fund, the Lender must confirm that:

- Fannie Mae’s indirect equity interest in the Borrower is less than 50%; and
- in the case of a LIHTC transaction:
  - the IRS documentation filed in connection with the bond issuance shows that none of the bond proceeds were applied to pay any portion of Fannie Mae’s credit-enhancement fee;
  - the bond issuer and the Borrower have entered into a LIHTC agreement acknowledging Fannie Mae’s equity investment in the Borrower or have otherwise consented in writing to Fannie Mae’s equity investment in the Borrower; and
  - notices, if any, required to be provided to the Borrower and the issuer under such LIHTC agreement have been provided; and
- in the case of a transaction other than a LIHTC transaction, the issuer and the Borrower have consented in writing to Fannie Mae’s equity investment in the Borrower.
# Chapter 3 – The Property

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Section 301. Generally (10/13/14)

Section 301.01 Anti-Redlining Policy

Fannie Mae requires Lenders to comply with all fair housing and fair lending laws, including prohibitions against “redlining”. Redlining is a form of illegal disparate treatment in which a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristics (or any proxy for such characteristics) of the residents of the area in which the property to be mortgaged is located. Locational factors are fundamental to the appraising and prudent underwriting of a Property, and there is nothing improper about underwriting on the basis of a realistic analysis of risk in a given location. However, the risk analysis must not be based on improper factors, nor derived from factors that do not reliably predict risk. The appraiser and the Lender must apply Fannie Mae’s guidelines in a consistent, equitable, and legal manner. No provision of the Guide is intended, or may be interpreted by the Lender, to foster or condone redlining.

Section 301.02 Basic Property Requirements

A Mortgage Loan secured by a multifamily residential property is eligible for purchase by Fannie Mae if that Property:

- contains at least 5 dwelling units;
- has bathing and cooking facilities, suitable to the competitive market, located within each unit;
- has Stabilized Residential Occupancy by Qualified Occupants;
- is located in 1 of the 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, or Guam;
- is located on a publicly dedicated, all-weather road, or is accessible from such a road by means of access subject to a satisfactory easement;
- consists of either (i) a single parcel, or (ii) contiguous parcels that are either adjoining or are separated by dedicated or private streets that are not major arterials, and have the following characteristics:
  - all parcels of the Property have been operating as 1 project;
  - the parcels are within a reasonable distance from each other (no more than 0.25 miles apart), and are all within the same submarket;
  - any shared amenities on any parcel are available to all tenants;
  - the location of amenities on 1 parcel does not materially adversely affect the rents at another parcel without amenities; and
□ no elevated vacancy level exists at one parcel due to the Property’s configuration;

■ is serviced by public water and sewer systems and by adequate public utilities (private water and sewer systems and utilities are permitted when deemed commercially acceptable for the geographic area);

■ is able to provide the accepted level of utility service (i.e., electrical, plumbing, refuse removal, etc.) for the market area;

■ has access to police and fire protection;

■ either complies with all applicable statutes, rules, regulations, and housing codes and building codes or non-compliance issues have been or are being appropriately remediated; and

■ has no evidence of any illegal activities occurring on the Property that would materially impact the ongoing operation of the Property.

**Section 302. Form of Ownership and Leaseholds (06/03/13)**

The Property securing the Mortgage Loan must be owned either in fee simple or be held under an acceptable Leasehold estate.

**Section 303. Ground Leased Properties (08/28/17)**

**Section 303.01. Generally**

Leasehold estates are acceptable collateral if the Lender complies with the requirements contained in this Section. The requirements for Leasehold estates do not apply to:

■ Mortgage Loans in which the ground lessor executes the Security Instrument and grants a Lien on the ground lessor’s fee estate; or

■ Mortgage Loans in which the Leasehold estate is not a material part of the collateral for the Mortgage Loan (materiality must be determined by considering whether the absence of that portion of the Property subject to a Ground Lease would have a material negative impact on the operation or value of the Property).

**Section 303.02. Requirements**

A. **Ground Lease Rents**

1. Ground Lease rents, including bonus rent and escalations, during the term of the Mortgage Loan must be considered when calculating Underwritten NCF.
2. An escrow with the Lender must be established that provides for the deposit of sufficient funds for the Lender to directly and timely make all payments due under the Ground Lease.

B. Term of Ground Lease

The term of the Ground Lease must extend at least 30 years beyond the term of the Mortgage Loan.

C. Ground Lease Terms

Any Ground Lease intended as collateral for a Mortgage Loan must comply with the requirements set forth in the Ground Lease Review Checklist (Form 6479).

Section 303.03. Ground Lease Estoppel Certificate

The Lender must obtain an estoppel certificate from the ground lessor substantially in the form of the Ground Lessor Estoppel Certificate attached as Exhibit A to the Ground Lease Review Checklist (Form 6479), and which should include any provisions required by the Ground Lease Review Checklist not already contained in the Ground Lease.

Section 303.04. Review of Ground Lease

The Lender must:

- review and analyze the Ground Lease to assure compliance with the requirements of this Section; and
- retain the completed Ground Lease Review Checklist (Form 6479) in its Servicing File.

Section 304. Phased Properties (06/03/13)

No Mortgage Loan secured by a Property that is one section of an existing complex or a complex being built in several phases where Fannie Mae does not already hold the Mortgage Loan on all remaining phases will be permitted to be delivered to Fannie Mae. If the Property is the first phase of a multi-phased project, then the Lender must contact its Fannie Mae Representative.

If Fannie Mae purchases a Mortgage Loan or Mortgage Loans on more than one phase in the project, then for each phase which is owned by the same Borrower (or for each phase where the Borrowers are owned or controlled by substantially the same Principals), Fannie Mae requires that the Mortgage Loans on such phases be cross-defaulted and cross-collateralized.
If Fannie Mae purchases a Mortgage Loan on one phase in a project where Fannie Mae has already purchased a Mortgage Loan on another phase or phases of the project and each phase is owned by the same Borrower (or for each phase where the Borrowers are owned or controlled by substantially the same Principals), Fannie Mae requires that the Mortgage Loan term for all such Mortgage Loans must be coterminous.

Section 305. Commercial Leases (08/28/17)

Section 305.01. Material Commercial Leases

A. Definition

A “Material Commercial Lease” is:

- any Lease, sublease, license, concession, grant, or other possessory interest for commercial purposes that comprises 5% or more of the total gross income at the Property on an annualized basis; or

- regardless of the percentage of the total gross income at the Property that it comprises, any Lease relating to:
  - solar power, thermal power generation, or co-power generation, or for the installation of solar panels or any other electrical power generation equipment, and any related power purchase agreement;
  - mineral rights or rights relating to subsurface oil and/or natural gas;
  - telecommunications or a cell tower;
  - any dwelling units at the Property leased to an Affiliate of the Borrower, any Key Principal, or any Principal.

B. Lease Review

The Lender must:

- prepare a written summary or abstract of the material terms of each Material Commercial Lease;

- submit a copy of such summary or abstract to Fannie Mae if approval of such Lease is not delegated to the Lender; and

- in all cases retain such summary or abstract in the Lender’s Servicing File.

The Lender must analyze all aspects of the Lease, and of the tenant, grantee, or other beneficiary (each referred to in this Section 305 as a “tenant”) including, but not limited to:

- the tenant’s ability to fulfill its financial and other performance obligations under the Lease;
the insurance provisions of the Lease, to confirm consistency with the insurance requirements specified in the applicable Loan Documents or otherwise prescribed by Fannie Mae;

- confirm that the Lender’s consent must be obtained prior to any assignment, sublease, subcontracting, or other transfer of the Lease or any portion thereof; and

- confirm that the tenant has the right to terminate the Lease only in the event of a material casualty or condemnation that results in the landlord’s being unable to substantially restore the premises within a reasonable period of time.

C. Lease Approval

1. Lease with PACE Financing

Any Commercial Lease than includes any component of Property Assessed Clean Energy (PACE) financing is prohibited, unless the PACE financing is fully subordinated to the Lien of the Security Instrument. Any Commercial Lease including any component of subordinated PACE financing must be submitted to Fannie Mae.

2. Solar Power or Other Power Generation Lease

The Lender is delegated the authority to approve solar power, thermal power generation, or co-power generation Lease and any related power purchase agreement, provided that the Lease does not include any component of PACE financing.

3. Telecommunications and Cell Tower Leases

Each telecommunications and cell tower Lease must be reviewed by the Lender to determine whether the Lease contains any provision that would:

- negatively impact the value, visibility, livability, or marketability of the Property;

- impose an undue financial or operating burden on the Property or the Borrower;

- obligate the Borrower to rebuild any Improvements at the Property following a casualty or condemnation;

- have a Lease term (including extension options) in excess of 25 years;

- contain a purchase option; or

- convey an estate or other rights in excess of simple lessee rights (e.g., a perpetual easement, a purported sale of a portion of the Improvements, unjustified exclusivity, etc.).
If the Lender determines that the Lease contains any of the forgoing provisions, then the Lender must submit the Lease to Fannie Mae for approval.

4. **Mineral Rights; Oil and Natural Gas Leases**

Each lease of mineral rights or rights relating to subsurface oil and natural gas must be reviewed by the Lender to determine whether the Lease contains any provision that would:

- grant the lessee the right to use, access, or have the right of ingress and egress in, over, or across, the surface of the Property (i.e., surface entry) for any purpose whatsoever (e.g., pipes, access across, or storage on the Property);
- grant subsurface rights within 250 feet below the surface of the Property, or within 600 feet from the closest Property boundary line;
- have a material adverse effect on the health and safety of residents, air quality, noise levels, marketability, or occupancy of the Property;
- permit oil or gas well activities that could have a negative effect on the access, visibility, or storm water drainage at the Property;
- have a negative effect on the zoning or allowable density of the Property;
- facilitate drilling, storage, or processing of oil or gas on the Property or any property that is adjacent to the Property; or
- fail to require the lessee to indemnify and hold harmless the Borrower, as lessor, for any damage to the Property or any other damage or liability caused directly or indirectly as a result of the lease activities.

If the Lender determines that the Lease contains any of the forgoing provisions, then the Lender must submit the Lease to Fannie Mae for approval.

5. **Other Material Commercial Leases**

The Lender is delegated the authority to approve any other Material Commercial Lease if such Lease meets the requirements set forth in this Section.

D. **Lease Modifications**

If a Material Commercial Lease violates any of the requirements set forth in this Section, or otherwise contains terms that are inconsistent with the terms of, or presents risks that are inappropriate to, the Mortgage Loan, then either:

- the Lease must be modified appropriately; or
- the inconsistencies or risks must be addressed in the Tenant Estoppel Certificate and/or the Subordination, Non-Disturbance and Attornment Agreement.
E. Tenant Estoppel Certificate

The Lender must obtain a written estoppel certificate for each Material Commercial Lease substantially in the form of the Tenant Estoppel Certificate (Form 6413).

F. Subordination, Non-Disturbance and Attornment Agreement

Each Material Commercial Lease (including any renewal or extension) must be expressly subordinate to the lien of the Security Instrument, and require the tenant to attorn to the Lender. The Lender must evaluate whether a subordination, non-disturbance and attornment agreement (SNDA) is required to provide the necessary subordination and attornment, or whether it would be beneficial for other reasons. If the Lease contains provisions relating to the existence of liabilities or other risks that are appropriate for the Borrower in its capacity as the landlord of the premises, but unacceptable for the Lender in the context of a Foreclosure Event, then the Lender's liability to the tenant must be expressly limited in a Subordination, Non-Disturbance and Attornment Agreement (Form 6415).

Section 305.02. Non-Material Commercial Leases

A. Definition

A “Non-Material Commercial Lease” is any Lease, sublease, license, concession, grant, or other possessory interest for commercial purposes that is not a Material Commercial Lease.

B. Tenant Estoppel Certificate; Lease Modification

The Lender must use reasonable efforts to obtain a written estoppel certificate for each Non-Material Commercial Lease substantially in the form of the Tenant Estoppel Certificate (Form 6413), except that a Tenant Estoppel certificate is not required for Leases that relate only to equipment or maintenance services. If a Non-Material Commercial Lease contains terms that are inconsistent with, or presents risks that are inappropriate to, the contemplated Mortgage Loan transaction, then either:

- the Lease must be modified appropriately; or
- the inconsistencies or risks must be addressed in a Tenant Estoppel Certificate.

C. Communications Service Agreement

A service agreement that is solely for cable television service, internet, broadband service, or telephone service to individual units or the Property:

- is a Non-Material Commercial Lease; and
- does not have to be subordinated to the Lien of the Security Instrument, provided:
the Borrower certifies to the Lender that none of the Borrower, Key Principal, or any Principal is an Affiliate of, or otherwise related to, the communications service provider; and/or

the Lease does not contain provisions relating to the existence of liabilities or other risks that are appropriate for the Borrower in its capacity as the landlord of the premises, but unacceptable for the Lender in the context of a Foreclosure Event.

If a communications service agreement is accompanied by a Lease or easement, such Lease or easement must terminate automatically upon the expiration or termination of the communications service agreement, or be subordinated to the Lien of the Security Instrument.

D. Laundry Leases

A laundry lease solely for laundry related equipment or machinery:

- is a Non-Material Commercial Lease; and
- does not have to be subordinated to the Security Instrument if the Lease:
  - is not with any Person that is an Affiliate of, or otherwise related to, the Borrower, Key Principal, or any Principal;
  - is determined by the Lender to have market terms;
  - contains an acceptable termination for cause provision; and
  - is acceptable in all other respects in accordance with generally recognized industry standards.

E. Equipment or Maintenance Services Leases

A Lease that relates only to equipment or related maintenance services is a Non-Material Commercial Lease. Such a lease must:

- include acceptable subordination language so that the Lease is expressly subordinate to the Security Instrument;
- contain an acceptable termination for cause provision; and
- be acceptable in all other respects in accordance with generally recognized industry standards.

F. Storage Unit Leases

A Lease that relates only to a storage unit leased pursuant to a residential Lease is a Non-Material Commercial Lease.
Section 305.03. Short Term Lodging Leases

The Borrower must not (i) use any portion of the Property as short-term lodging (i.e., for one month or less), such as through a peer-to-peer online marketplace or homestay network (e.g., Airbnb), or (ii) enter into any lease of one or more units to any Person for the purpose of such unit or units being used for short-term lodging rather than actual occupancy by such tenant.

Section 306. Liens and Encumbrances (06/03/13)

Except as provided in this Section, the Property must be free and clear of all encumbrances and Liens that have priority over the Lien of the Security Instrument that secures the Mortgage Loan (other than cable and laundry leases as described in this Chapter). No rights may exist that could give priority to any Lien over the Lien of the Security Instrument, except for real estate taxes and special assessments that are shown in the title policy as Liens not yet due and payable. No legal proceedings may be pending against the Property. The Lender must ascertain whether there are any proffers or other restrictions (e.g., concessions made to obtain zoning approval or building permits) on the use or Improvements of the Property and, if so, ensure that such proffers or restrictions are addressed in the Transaction Approval Memo.

In the case of a restrictive covenant that prohibits the conversion of a Property to a condominium or similar development, such restrictive covenant is not permitted unless:

- the conversion prohibition is for a period of 10 years or less (if the term of the restriction is 10 years or less but commences on a date later than the issuance of final certificates of occupancy, the Transaction Approval Memo must provide analysis that supports the use of such later date);

- any repurchase option or other right of reversion of the party benefited by the restrictive covenant is:
  - unconditionally subordinated in lien priority and right of payment to the Mortgage Loan and the Lien of the Security Instrument;
  - subject to an unconditional “standstill” provision that prohibits the exercise of any such option or right while the Mortgage Loan is outstanding; and
  - automatically extinguished upon judicial or non-judicial Foreclosure (including a deed-in-lieu of Foreclosure);

- the restrictive covenant expressly provides that the mortgagee under any mortgage or the trustee or beneficiary under any deed of trust or deed to secure debt, is not liable for any act or omission or indemnification obligation of any prior owner (including the Borrower) or any subsequent owner of the Property; and

- the restrictive covenant does not require the mortgagee under any mortgage or the trustee or beneficiary under any deed of trust or deed to secure debt, to execute any assumption or similar agreement in connection with a judicial or non-judicial Foreclosure (including a deed-in-lieu of Foreclosure).
If the Property is subject to a restrictive covenant that satisfies the criteria set forth above and the Lender determines that the terms of the restrictive covenant are otherwise acceptable, the restrictive covenant shall be a permitted encumbrance against the Property. The Lender must address the permitted restrictive covenant in the Transaction Approval Memo (including the supporting analysis required above regarding the term, if applicable).

Section 307. Easements (06/03/13)

The Lender must carefully evaluate all easements (public and private) for their effect on Property value and future marketability. Easements for normal utilities providing natural gas, water, sewer, electricity, and telephone service to the Property are generally acceptable and easements that serve other properties might be acceptable if they do not interfere with Improvements on the Property, are for residential and reasonable commercial use, and appropriate insurance is maintained, as applicable.

Easements for other types of utilities, such as transcontinental pipelines, high power electric transmission lines, or drainage channels, must be fully evaluated for their potential impact on the Property’s marketability, safety, environmental risks, and acceptability in the market area.

Section 308. Zoning and Legal Non-Conforming Uses (06/03/13)

The Lender must verify the current zoning or land use designation for the Property and determine whether the use of the Property conforms to the current zoning or land use designation.

If the Property is a legal non-conforming use under applicable zoning and land use laws and regulations, then the Lender must assess whether the Mortgage Loan can be supported in the event of a casualty that results in the Borrower’s inability to rebuild the Improvements on the Property to the density level immediately prior to such casualty, taking into consideration the Borrower’s insurance coverages and the continued use, marketability and economic viability of the Property in the event of full or partial destruction of the Property. The Lender must take the following into account in its underwriting:

- the percentage of damage that could occur before the Property would be forced to comply with current zoning requirements,
- the Property characteristics to which the percentage applies (e.g., market value, assessed value, replacement cost or unit count),
- for multiple building Properties, whether the test applies to a single building or the complex as a whole, and
- the amount and type of insurance coverage maintained by the applicable Borrower.
If, under applicable laws and regulations, the destruction threshold that would prohibit full restoration or rebuilding of the Property is less than 50%, the Lender must obtain prior written approval from Fannie Mae before delivering the Mortgage Loan.

Section 309. Certificates of Occupancy (06/03/13)

Section 309.01. Certificates of Occupancy – Recently Completed Properties

Fannie Mae requires that all units in any Recently Completed Property have a Certificate of Occupancy issued by the applicable governmental authority. The Lender must obtain copies of all Certificates of Occupancy from the Borrower and retain them in its Servicing File.

Section 309.02. Certificates of Occupancy Previously Issued

Fannie Mae requires that all units in non-Recently Completed Properties have had at some point in time a Certificate of Occupancy issued by the applicable governmental authority. The Lender must use all reasonable efforts to obtain copies of all Certificates of Occupancy. If the Lender cannot obtain copies of all Certificates of Occupancy or other sufficient evidence that Certificates of Occupancy for all units in the Property have been issued because of the age of the Property or other reasonable cause, the Lender must use its judgment whether to proceed with the transaction and evidence its reason for proceeding in the Lender’s Transaction Approval Memo.

Section 309.03 Certificates of Occupancy Never Issued

For units that have never been issued a Certificate of Occupancy, Fannie Mae will consider a waiver of the Certificate of Occupancy requirement so long as the Lender has considered the following:

■ the number of units without a Certificate of Occupancy must be limited (i.e., less than 10 and less than 5% of the total units in the Property);
■ based on a physical inspection performed by the Lender, there must be no life/safety issues associated with the units;
■ the units must be accessible through normal access routes (i.e., no units that are former janitorial closets);
■ the units must contain bathroom and kitchen facilities;
■ the Lender must underwrite the Mortgage Loan by excluding the income generated by the units without a Certificate of Occupancy and including all of the expenses (including replacement reserves) for the maintenance of such units;
■ the casualty and liability insurance provided for the Property must not exclude coverage under the policy as a result of a casualty originating from any such unit; and
the transaction must be located in a market that exhibits low vacancies and barriers to entry.

**Section 310. Market and Valuation (02/22/16)**

**Section 310.01. Market Analysis**

The Lender must evaluate the characteristics of the Property’s market area and structure the Mortgage Loan to address any strengths or weaknesses identified.

**Section 310.02. Appraisal**

The Lender must obtain an Appraisal that:

- is prepared by a qualified, state-licensed or certified appraiser;
- conforms to the requirements prescribed by the Uniform Standards of Professional Appraisal Practice (“USPAP”) of The Appraisal Foundation, as amended or updated from time to time;
- satisfies any Lender-applicable governmental regulations in effect at the time the Mortgage Loan was originated, including the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), as amended from time to time; and
- otherwise conforms to industry standard commercial appraisals.

**A. Role of Appraiser**

The appraiser's role is to provide:

- a complete, accurate description of the Property and market, and
- an opinion of the market value of the Property.

All conclusions reached must be based upon and supported by market data, logical analysis, and sound professional judgment.

**B. Appraiser Qualifications – Licensing and Certification Requirements**

The Lender (and any third-party originators used by the Lender) must be aware of, and in full compliance with, state laws for licensing and certification of real estate appraisers. The Lender must document that the appraiser is licensed or certified as appropriate under the applicable state law.
The appraiser (whether third-party or in-house) must act independently and not participate in underwriting decisions or be part of the underwriting staff in connection with the origination of the Mortgage Loan.

C. Date of Valuation

The date of the Appraisal may not be more than 6 months prior to the Commitment Date unless a letter has been obtained from the appraiser, updating the effective date of an Appraisal dated more than 6 months, but less than 12 months, prior to the Commitment Date. A new Appraisal of the Property is required for an Appraisal dated more than 12 months prior to the Commitment Date.

D. Documents Provided by the Lender to the Appraiser

The Lender must furnish the appraiser any documentation necessary to enable the appraiser to provide a complete and accurate assessment of the value of the Property.

E. Documenting the Appraisal

The appraiser may use any industry standard form of Appraisal that meets the above standards and is appropriate for the size and structure of the transaction.

F. Appraised Value

The Appraisal must provide an opinion of the market value of the Property on an “as is” basis. The Lender may request that the Appraisal also provide an opinion of the market value of the Property on an “as completed” basis to incorporate capital improvements to be made after the Mortgage Loan Origination Date, including:

- capital improvements identified as Immediate Repairs in the Property Condition Assessment; or
- capital improvements the Borrower wishes to make in addition to those included in the Property Condition Assessment.

The Appraised Value is the market value of the Property on an “as is” basis as provided in the Appraisal, except that the Lender may use the opinion of the market value on an “as completed” basis as the Appraised Value, if:

- less than 12 months have passed between the Borrower’s acquisition of the Property and the Commitment Date;
- all such capital improvements are included either on the Completion/Repair Agreement or the Rehabilitation Reserve Agreement;
funds for the completion of such capital improvements are deposited into either the Completion/Repair Escrow or Rehabilitation Reserve Account, as applicable, in the amount of:

□ the estimated cost of such capital improvements (including an allowance for cost overruns) for capital improvements identified by the Borrower; or

□ such higher funding percentage as required by Part IIIA, Section 317 for capital improvements identified as Immediate Repairs; and

the capital improvements are required to be completed in a timely manner, but not later than:

□ 12 months after the Mortgage Loan Origination Date for capital improvements identified by the Borrower; or

□ such shorter time period as may be required by Part IIIA, Section 316 for capital improvements identified as Immediate Repairs.

**Section 310.03. Underwriting Value**

The Lender must determine a value for use in underwriting for the Property (the "Underwriting Value") that is the lowest of the following:

■ the Appraised Value;

■ an Underwriting Value, which is the Appraised Value, as may be reduced by any adjustments deemed necessary by the Lender to account for any Appraisal deficiencies that cannot be cured within 6 months after the date of the Appraisal (or within 6 months after any later effective date established by an update letter received from the appraiser pursuant to Section 310.02.C. of this Chapter); or

■ if less than 12 months have passed between the closing date of the Borrower’s acquisition of the Property and the Commitment Date, the lowest of:

□ the Appraised Value;

□ the Underwriting Value; or

□ the sum of:

- the Property acquisition price; plus

- the cost (to the extent such costs increase the value of the Property) of any capital improvements or repairs completed and fully paid for prior to the Commitment Date, or which will be fully funded by the Borrower into a Completion/Repair Escrow or a Rehabilitation Reserve Account, as applicable; plus

- actual acquisition closing costs not exceeding 3% of the acquisition price.
Section 311. Property Income Analysis (08/28/17)

Section 311.01. Underwritten Net Cash Flow (Underwritten NCF)

Fannie Mae expects Underwritten NCF to be achievable within 12 months after the Mortgage Loan Origination Date unless unexpected market conditions, or other events not reasonably foreseeable at the time of underwriting, occur that prevent the Property from achieving the Underwritten NCF.

Underwritten NCF may differ significantly from one Property to another, and will be driven by circumstances particular to each Property. When calculating the Underwritten NCF, the Lender should use both objective and subjective measures to determine the revenue generated and the operating expenses incurred at the Property. Property income and operating expenses must be based on the best information available to the Lender, including historical Property performance and anticipated Property operations. In all cases, support for these measures must be clearly demonstrated and supported in the Transaction Approval Memo.

The Lender must make best efforts to receive operating statements for the 3 previous years. The Lender should obtain the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). For acquisitions, the Lender’s analysis may rely on the Borrower’s budgeted operating statements.

For a Property located in New York City that is currently subject to the J-51 Tax Incentive Program where the Borrower has decontrolled rent-stabilized units (a “Decontrol Event”), the Lender must adjust the rents currently in place to reflect no rent decontrol benefits. The Lender must determine the date and amount of rents prior to the Decontrol Event, and the rent amount per unit prior to the Decontrol Event will be considered the “base rent.” The Lender must use the base rent for each applicable unit to determine the Gross Rental Income. However, the Lender may increase the base rent by the appropriate percentage allowed under New York City Rent Stabilization laws per annum through the present rent roll date.

The maximum Underwritten NCF must be calculated as follows, incorporating only the income and expense line items that are applicable to the property, but including the specific income and operating expense line items noted in the loan-sizing spreadsheet. In all instances, the Lender is delegated to calculate the Underwritten NCF more conservatively than shown below.
## UNDERWRITTEN NET CASH FLOW
### CALCULATION OF INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td></td>
<td><strong>GROSS RENTAL INCOME</strong> – actual rents in place for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12)</td>
</tr>
<tr>
<td>2</td>
<td>PLUS</td>
<td>To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the “model apartment” operating expense in the “general and administrative” category, or actual rent from employee units deducted in the “employee” operating expense in the “payroll and benefits” category)</td>
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<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong> <strong>GROSS POTENTIAL RENT (GPR)</strong></td>
</tr>
<tr>
<td>3</td>
<td>MINUS</td>
<td>Premiums (e.g., identifiable additional income from furnished units or short-term leases) and/or Corporate Premiums (e.g., identifiable additional income from corporate units, housekeeping services, etc.)</td>
</tr>
<tr>
<td>4</td>
<td>MINUS</td>
<td>Physical Vacancy(^1) – market rents for vacant units based on a current rent roll (multiplied by 12)</td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Concessions (i.e., the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for one or more months, move-in allowance, etc.)(^1)</td>
</tr>
<tr>
<td>6</td>
<td>MINUS</td>
<td>Bad Debt (i.e., the aggregate amount of unpaid rental income due from tenants determined to be uncollectable): include any adjustments to Other Income for Bad Debt(^1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong> <strong>NET RENTAL INCOME (NRI)</strong>(^2)</td>
</tr>
</tbody>
</table>
UNDERWRITTEN NET CASH FLOW

1. The total of Item 4, plus Item 5, plus item 6 must equal the greater of (i) the difference between the trailing 3-month net rental collections (annualized) and GPR, or (ii) 5% of GPR.

2. Underwritten NRI must reflect projected operations for the underwriting period.
   a. The Lender must assess the individual month NRI within the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). If there are fluctuations, the Lender may use an Underwritten NRI that exceeds the trailing 3 month NRI, as long as the Underwritten NRI does not exceed the highest 1 month NRI used in the trailing 3 month NRI calculation. The Lender must fully support any changes to the Underwritten NRI.
   b. The Lender must assess whether there was any decline in NRI for the trailing 3-month period compared to the trailing 6-month period and the trailing 12-month period. If the decline in NRI for the trailing 3-month period is greater than 2% compared to either the trailing 6-month period or the trailing 12-month period, the Lender must adjust downward the underwritten NRI to an amount that is 2% less than the lowest NRI for the trailing 1-month, 3-month, 6-month, or 12-month period. The 2% adjustment to NRI is a minimum mandatory adjustment; however, the Lender is expected to make additional downward adjustments as appropriate to reflect current market conditions not reflected in historical operations.

CALCULATION OF OTHER INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
</table>
| 7    | PLUS     | Actual other income (except Premiums and Corporate Premiums) generated through ongoing operations. The income must:  
|      |          |  - be stable; |
|      |          |  - be common in the market; |
|      |          |  - exclude one-time extraordinary non-recurring items; and |
|      |          |  - be supported by prior years. |

The Lender must assess the individual month Underwritten Other Income within the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). If there are fluctuations, the Lender may use Underwritten Other Income that exceeds the trailing 3 month Other Income (annualized), as long as the Underwritten Other Income does not exceed the highest 1 month Other Income used in the trailing 3 month Other Income calculation. The Lender must fully support any changes to the Underwritten Other Income.

In determining the Property other income, the Lender must adjust Items 8 through 11 as shown below, while Items 12, 13, and 14 are examples of specific income that should be included wherever applicable.
### UNDERWRITTEN NET CASH FLOW

#### CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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</thead>
<tbody>
<tr>
<td>8</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable)</td>
</tr>
<tr>
<td>9</td>
<td>MINUS</td>
<td>10% of the actual commercial income</td>
</tr>
</tbody>
</table>

3. If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
</table>
| 10   | PLUS     | Premiums, provided that the income must:  
- be a stable or increasing source of income;  
- be typical (in type and amount) in the market;  
- be supported by prior years; and  
- not exceed the income generated over the most recent year or trailing 12-month period. |
| 11   | PLUS     | Corporate premiums, provided that this income must:  
- not be included for more than 10% of the Property’s units;  
- be stable or increasing;  
- be typical (in type and amount) in the market;  
- be supported by prior years; and  
- not exceed the income generated over the most recent year or trailing 12-month period. |
| 12   | PLUS     | Laundry/vending: include any income from laundry and vending. |
| 13   | PLUS     | Parking: include any income from residential parking/garage spaces. |
| 14   | PLUS     | All other income: include the following:  
- application fees;  
- cable;  
- club house rental;  
- forfeited security deposits;  
- insurance proceeds (rent loss only);  
- fees charged tenants for returned checks due to insufficient funds (NSF);  
- late fees;  
- miscellaneous;  
- non-refundable fees;  
- pet;  
- reimbursements; |
### UNDERWRITTEN NET CASH FLOW

- security deposits forfeited;
- storage;
- temporary tenants;
- utility; and/or
- other.

The following must be omitted:
- corporate tax and refunds;
- delinquency;
- FASB 13 straight line lease income;
- gain on sale;
- insurance proceeds (except rent loss);
- interest income;
- mobile home sales;
- partnership funds received;
- sales tax collected;
- security deposits collected;
- interest on security deposits;
- security deposits returned;
- straight-line lease income; and/or
- tax reimbursement from real estate taxes.

### EQUALS EFFECTIVE GROSS INCOME (EGI)

### CALCULATION OF OPERATING EXPENSES

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
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<tbody>
<tr>
<td>15</td>
<td>MINUS</td>
<td>Line-by-line stabilized Property operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary expenses must not be included. The Lender must assess past operating history, the appraiser’s expense analysis, all information available to the Lender (including property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets), and the Borrower’s budget (in the case of an acquisition loan). The Lender should analyze historical operations at the Property and apply an appropriate increase over the prior year’s operations in determining an estimate. If a trend is not applied, the</td>
</tr>
</tbody>
</table>
### UNDERWRITTEN NET CASH FLOW

Transaction Approval Memo must provide clear support and justification for stable or declining operating expenses.

In determining the Property operating expenses, the Lender must adjust Items 15(a), 15(b), and 15(c) as shown below, while Items 15(d) through 15(k) include examples of specific expenses that should be included within each Item wherever applicable.

<table>
<thead>
<tr>
<th>Item</th>
<th>Adjustment</th>
<th>Details</th>
</tr>
</thead>
</table>
| 15(a) | MINUS | Property Management Fee equal to the greatest of:  
- 3% of EGI^4;  
- actual Property Management Fee (exclude any portion of a non-arm’s length Property Management Fee that is subordinated to the Mortgage Loan); or  
- market Property Management Fee. |
| 15(b) | MINUS | Real Estate Taxes based on the greatest of:  
- actual future tax bill or bills covering a full calendar year;  
- prior full year’s taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or  
- in California, the Mortgage Loan amount or assessed value multiplied by the millage rate. |

All tax assumptions must consider any automatic reassessment upon acquisition in the next 12 month period.

A reduced real estate tax payment may be used if the Property has real estate tax abatements, exemptions, or deferrals that will:  
- be in effect at closing, per written documentation from the state or local tax assessor; and  
- survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit (i.e., it is tied to the Property and not the owner).

Such a reduced real estate tax payment may be used for the period that the abatement or deferral is in effect if an
### UNDERWRITTEN NET CASH FLOW

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<thead>
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<th></th>
<th>MINUS</th>
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<tbody>
<tr>
<td>15(c)</td>
<td>❌</td>
<td>Insurance equal to:</td>
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<td>- the quoted expense, for insurance policies with a</td>
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<td></td>
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<td>bona fide written quote from a reputable broker for a new</td>
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<td>12-month policy; or</td>
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<td></td>
<td>- 110% of the current expense, for insurance policies with a</td>
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<td></td>
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<td>remaining term less than 6 months.</td>
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<tr>
<td>15(d)</td>
<td>❌</td>
<td>Utilities, including the following:</td>
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<td></td>
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<td>- building lights;</td>
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<td></td>
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<td>- dumpster rental;</td>
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<td></td>
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<td>- electricity;</td>
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<td></td>
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<td>- natural gas;</td>
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<td>- fuel oil;</td>
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<td></td>
<td>- heat;</td>
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<td></td>
<td>- non-common area electric;</td>
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<tr>
<td></td>
<td></td>
<td>- parking lot electric;</td>
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<td></td>
<td>- parking lot lights;</td>
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<td></td>
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<td>- septic;</td>
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<td>- trash removal (including contract);</td>
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<td>- utilities;</td>
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<td></td>
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<td>- vacant unit utilities; and/or</td>
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<td>- other.</td>
</tr>
<tr>
<td>15(e)</td>
<td>❌</td>
<td>Water and sewer</td>
</tr>
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<td>15(f)</td>
<td>❌</td>
<td>Repairs and maintenance, including the following:</td>
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<td></td>
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<td>- appliance;</td>
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<td></td>
<td></td>
<td>- building;</td>
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<tr>
<td></td>
<td></td>
<td>- carpet;</td>
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<td></td>
<td></td>
<td>- common area maintenance;</td>
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<td></td>
<td></td>
<td>- cleaning;</td>
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<td></td>
<td></td>
<td>- decorating;</td>
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<td></td>
<td>- electrical;</td>
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<td></td>
<td></td>
<td>- elevator;</td>
</tr>
</tbody>
</table>
| UNDERWRITTEN NET CASH FLOW | equipment repairs;  
| | exterminating services;  
| | floor covering replacement;  
| | HVAC;  
| | janitorial;  
| | landscaping (exterior);  
| | landscaping (interior/plants);  
| | lawn and grounds;  
| | lock/keys;  
| | maid service;  
| | make ready;  
| | mechanical;  
| | painting;  
| | parking lot;  
| | parking lot lighting repair;  
| | pest control;  
| | plumbing;  
| | pool;  
| | repairs and maintenance;  
| | rubbish removal;  
| | scavenger;  
| | snow removal;  
| | supplies;  
| | supplies – cleaning;  
| | turnover;  
| | vacancy preparation;  
| | water irrigation;  
| | water treatment;  
| | window covering repair/replacement (minor);  
| | and/or  
| | other.  

| 15(g) | MINUS |
| Payroll and benefits, including the following:  
| | 401k;  
| | bonuses;  
| | contract labor (carpet cleaning);  
| | contract labor – make ready;  
| | contract work;  
| | custodian salary;  
| | employee benefits;  
|
**UNDERWRITTEN NET CASH FLOW**

- employee expense;
- employee insurance;
- FICA;
- health benefits;
- labor plumbing;
- manager salaries;
- payroll and benefits;
- payroll and processing;
- payroll taxes;
- salaries;
- salaries maintenance;
- security personnel’s salary;
- subcontracted labor;
- temporary help;
- unemployment insurance;
- worker’s compensation; and/or
- other.

<table>
<thead>
<tr>
<th>15(h)</th>
<th>MINUS</th>
<th>Advertising and marketing, including the following:</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>advertising;</td>
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<tr>
<td></td>
<td></td>
<td>advertising and marketing;</td>
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<tr>
<td></td>
<td></td>
<td>apartment finder/guide;</td>
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<td></td>
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<td>banners;</td>
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<td>brochures;</td>
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<td></td>
<td>building signage;</td>
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<td>finder’s fee;</td>
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<td>marketing;</td>
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<td>media commissions;</td>
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<td>newspaper ads;</td>
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<td>promotions;</td>
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<td>resident relations;</td>
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<td>signage;</td>
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<td>supplies – marketing;</td>
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<td></td>
<td>tenant relations;</td>
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<td></td>
<td>Yellow Pages; and/or</td>
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<td></td>
<td></td>
<td>other.</td>
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</tbody>
</table>
### UNDERWRITTEN NET CASH FLOW

<table>
<thead>
<tr>
<th></th>
<th>MINUS</th>
<th>Professional fees, include the following:</th>
</tr>
</thead>
<tbody>
<tr>
<td>15(i)</td>
<td>MINUS</td>
<td>* accounting or tax fees;*</td>
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<tr>
<td></td>
<td></td>
<td>* architectural fees;*</td>
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<tr>
<td></td>
<td></td>
<td>* attorney fees;*</td>
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<td></td>
<td></td>
<td>* bookkeeping fees;*</td>
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<td></td>
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<td>* engineering fees;*</td>
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<td>* legal fees/expense;*</td>
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<td></td>
<td>* professional fees; and/or*</td>
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<td></td>
<td></td>
<td>* other.*</td>
</tr>
</tbody>
</table>

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<tr>
<th></th>
<th>MINUS</th>
<th>General and administrative, including the following:</th>
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<tr>
<td>15(j)</td>
<td>MINUS</td>
<td>* administrative fee;*</td>
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<tr>
<td></td>
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<td>* ad valorem tax;*</td>
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<td></td>
<td>* alarm system;*</td>
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<td></td>
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<td>* answering service;*</td>
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<td></td>
<td></td>
<td>* auto leasing;*</td>
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<td></td>
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<td>* auto repairs;*</td>
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<td></td>
<td></td>
<td>* bank charges;*</td>
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<tr>
<td></td>
<td></td>
<td>* broker commission/fees;*</td>
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<td></td>
<td></td>
<td>* business license;*</td>
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<td>* cable;*</td>
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<td></td>
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<td>* cell phone/pager;*</td>
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<td>* commissions;*</td>
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<td>* computer repairs;*</td>
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<td>* courtesy patrol;*</td>
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<td>* credit check;*</td>
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<td>* donations;*</td>
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<td>* education;*</td>
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<td>* entertainment;*</td>
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<td></td>
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<td>* equipment lease/rental;*</td>
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<td>* eviction expense;*</td>
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<td>* fire extinguisher &amp; moving expense;*</td>
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<td>* fire prevention;*</td>
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<td>* freight and shipping;*</td>
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<td></td>
<td></td>
<td>* general and administrative;*</td>
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<tr>
<td></td>
<td></td>
<td>* leased equipment;*</td>
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<td></td>
<td></td>
<td>* leasing commissions;*</td>
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<tr>
<td></td>
<td></td>
<td>* leasing office expense;*</td>
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<td></td>
<td></td>
<td>* licenses;*</td>
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<td></td>
<td></td>
<td>* life safety;*</td>
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</tbody>
</table>
### UNDERWRITTEN NET CASH FLOW

- mileage;
- miscellaneous general and administrative expenses;
- model apartment;
- office supplies;
- office unit (non-revenue unit);
- permits;
- personal property taxes;
- postage;
- printing;
- public relations;
- rental commissions;
- rental expense;
- security;
- security vehicle and maintenance vehicle;
- space designs and drawings;
- subscription dues;
- telephone;
- travel;
- truck repairs;
- uniform service;
- utility vehicle;
- vehicle lease;
- vehicle repair and expense; and/or
- other.

<table>
<thead>
<tr>
<th>15(k)</th>
<th>MINUS</th>
<th>Other Expenses, including the following:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>- ancillary expense;</td>
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<td></td>
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<td>- general building;</td>
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<td></td>
<td></td>
<td>- miscellaneous;</td>
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<td></td>
<td></td>
<td>- other expenses/costs; and/or</td>
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<tr>
<td></td>
<td></td>
<td>- on-going costs associated with any Interest Rate Cap Agreement.</td>
</tr>
</tbody>
</table>

The following should be omitted from “Other Expenses”:

- amortization;
- depreciation;
- entity (i.e. filing, license, etc.);
- financing fees;
- franchise taxes/fees;
UNDERWRITTEN NET CASH FLOW

- interest;
- initial or upfront costs associated with any Interest Rate Cap Agreement;
- legal fees associated with securing mortgage loans;
- life insurance;
- owners draw;
- partnership fees;
- principal payments on any loan;
- sales tax paid; and/or
- trust account fees.

16 **MINUS** Ground rent: include for any Ground Lease or any master lease.

**EQUALS** UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)

17 **MINUS** Capital Expenditures (Replacement Reserve) as required in Part IIIA, Section 318

**EQUALS** UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)

---

Minimum Management Fee may be 2.5% of EGI (rather than 3% of EGI) provided that all of the following are met:

- the underwritten Management Fee is at least $300 per unit;
- the actual Management Fee is equal to or less than the underwritten Management Fee;
- the Mortgage Loan has an original principal amount greater than $3 million; and
- market Management Fees support the underwritten Management Fee for similarly sized properties.

---

**Section 311.02. Calculation of Underwritten Debt Service Coverage Ratio (Underwritten DSCR)**

The Lender must calculate Underwritten DSCR as follows:

**UNDERWRITTEN DSCR**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td><strong>UNDERWRITTEN NCF</strong> as calculated in Section 311.01</td>
</tr>
<tr>
<td>2</td>
<td>DIVIDED BY</td>
<td>Annual debt service for the Mortgage Loan amount. Debt service must be based on a level debt service payment with an Amortization term pursuant to the Multifamily Underwriting Standards, or other Amortization term approved by Fannie Mae, and the higher of:</td>
</tr>
</tbody>
</table>
Section 311.03. Underwriting Interest Rate Floors

The Underwriting Interest Rate Floors (the “Underwriting Interest Rate Floor”) for 5-, 7-, and 10-year balloon fixed rate and adjustable rate Mortgage Loans are listed in the Multifamily Underwriting Standards. The Underwriting Interest Rate Floor is the lowest interest rate that may be used in determining the Mortgage Loan amount. When the Borrower’s Gross Note Rate falls below the Underwriting Interest Rate Floor, the Underwriting Interest Rate Floor must be used in underwriting to establish the highest permitted Mortgage Loan amount.

The higher of the Gross Note Rate or the Underwriting Interest Rate Floor must be used to determine the maximum permitted Mortgage Loan amount. The Mortgage Loan amount may not be increased even if the actual Gross Note Rate is lower than the Underwriting Interest Rate Floor.

For example, if the Borrower’s Gross Note Rate for a 7-year Tier 3 balloon Mortgage Loan is 5.60% and the Underwriting Interest Rate Floor is 5.75%, the Lender must determine the highest permitted Mortgage Loan Amount based on the appropriate amortization and the 5.75% Underwriting Interest Rate Floor even though the actual Gross Note Rate would be 5.60%.

All underwriting Tier requirements must be met based on the Underwritten NCF at the higher of the Gross Note Rate or the Underwriting Interest Rate Floor.

Section 312. Analysis of Refinance Risk (07/15/16)

The ability to refinance a Mortgage Loan is critical to Fannie Mae. The Lender must consider the Underwritten NCF and all objective and subjective measures to determine the expected refinance conditions. All refinance risk assumptions must be clearly demonstrated and supported in the Transaction Approval Memo, including:

- income growth rate;
- expense growth rate;
- capitalization rate at the Mortgage Loan Maturity Date;
- projected DSCR at the Mortgage Loan Maturity Date;
- projected LTV at the Mortgage Loan Maturity Date;
the transaction’s Refinance Interest Rate; and
unpaid principal balance at the Mortgage Loan Maturity Date.

Section 313. Residential Occupancy (06/03/13)

Section 313.01. Residential Occupancy Requirements

The minimum occupancy levels for an eligible Property is:

- 85% physical occupancy; and
- 80% economic occupancy.

A Property must meet the above minimum occupancy requirements at the time of Commitment and for each month during the three-month period immediately preceding the Commitment date.

Section 313.02. Tenant Qualifications as an Occupant

For a tenant to qualify as an occupant for purposes of computing the occupancy level of a Property, the tenant must have a lease with a term of at least 6 months, the tenant must physically occupy the unit, and must pay rent. Tenants under standard leases for at least 6 months that convert to month-to-month leases after the lease expires may be included as occupants for this purpose. If the Lender demonstrates that shorter-term leases are commonly accepted in the market area and do not reflect weakness in the market, tenants with lease terms of less than 6 months may also be included as occupants. Non-revenue producing units such as management units, employee occupied units, maintenance units, model units, or other non-revenue producing units ("Overhead Units") are not required to be counted as vacant units so long as they do not exceed what is usual and customary for stabilized properties in that market.

Section 314. Property Management; Property Management Agreements (10/13/14)

Section 314.01. Property Management

The Lender must determine if the Property is managed appropriately. The Property management must have adequate experience to ensure effective administration, leasing, marketing, and maintenance of the Property, and must be staffed adequately for the size and type of the Property, and for the services provided. Fannie Mae does not require independently contracted, professional Property management.
Section 314.02. Property Management Agreement

If the Borrower is not the Property manager, the Borrower must have a written management agreement with the management company. The property management agreement must clearly set forth the responsibilities of the Property manager and its fee (or the method of determining its fee), and must provide for cancellation without penalty or prior notice at the option of the holder of the Mortgage Loan upon any default under the Loan Documents. If the Fannie Mae form Assignment of Management Agreement (Form 6405) is executed by the Borrower and Property manager, then the management agreement need not contain a provision for cancellation without penalty or prior notice.

Section 315. Lender Site Inspection (07/15/16)

The Lender must physically inspect the Property or have such inspection of the Property performed by a Non-Employee. The Lender must also complete the MBA Master Inspection Form.

Section 316. Property Condition Assessments (08/28/17)

Section 316.01. Purpose of the Property Condition Assessment

Fannie Mae considers the condition of the Property at the time of Commitment, during the term of the Mortgage Loan, and at the Maturity Date of the Mortgage Loan to be of paramount importance. The Property must be well maintained in order to:

- protect the health and safety of residents, employees, and guests;
- attract and retain residents;
- provide cash flow to pay debt service during the Mortgage Loan term; and
- obtain sufficient refinancing funds at the maturity of the Mortgage Loan to repay the Mortgage Loan and fund any needed renovations.

The Property Condition Assessment (“PCA”), also known as the Physical Needs Assessment or PNA, is a required component of the underwriting and risk assessment, which provides the Lender with information regarding the physical condition of the Property. The findings of the PCA are documented in the Property Condition Assessment Report (“PCA Report”).

The PCA will include an expanded evaluation of the International Standard Guide for Property Condition Assessments: Baseline Property Condition Assessment Process (ASTM 2018-08) and other property condition considerations as identified in this Guide and the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).
Section 316.02. Determining When a PCA Is Required

A PCA is required for all Properties securing a Mortgage Loan unless explicitly excluded or governed by another provision of this Guide. A PCA is not required for a:

- Recently Completed Property; or
- Supplemental Mortgage Loan, if:
  - the date of the existing PCA is no more than 3 years old;
  - immediate repairs as indicated in the existing PCA have been completed;
  - the most recent Property inspection indicates an overall rating of “1” or “2”; and
  - the inspection of the Property at the underwriting of the Supplemental Mortgage Loan does not reveal any adverse change in the condition of the Property or any life safety issues.

Section 316.03. Frequency of PCA

For Mortgage Loans with a loan term greater than 10 years, a new PCA must be performed in the tenth Loan Year and every 10 Loan Years thereafter until the Maturity Date. All MAH Properties require a new PCA be performed in the fifth Loan Year and every 5 Loan Years thereafter until the Maturity Date. For any PCA required during the term of the Mortgage Loan, the Lender may order a Streamlined PCA if the most recent Property site inspection performed pursuant to Section 315 of this Chapter:

- indicates an overall rating of “1” or “2”; and
- does not reveal any adverse change in Property condition, normal wear and tear excepted, or any life safety issues.

Section 316.04. Date of PCA Report and PCA Site Visit

A PCA Report containing a High Building Performance Module (or any standalone HBP Report) must be dated as of the date of the site visit by the PCA Consultant, which must not be more than 6 months prior to the Commitment Date. However, a PCA Report that does not include an HPB Module may be dated up to 12 months prior to the Commitment Date, if the Lender performs a site visit within 90 days prior to the Commitment Date and confirms in the Transaction Approval Memo that there has been no material adverse change to the physical condition of the Property since the date of the PCA Report.
Section 316.05. Qualifications of the Property Condition Assessment Consultant

A. Property Condition Assessment Consultant Selection by Lender

The Lender must select and retain the individual or firm conducting the PCA and preparing the PCA Report (The “PCA Consultant”). Unless otherwise permitted by another section of the Guide, no portion of the Origination Fee paid by the Borrower may be used by the Lender for the payment of third party expenses related to the PCA.

The Lender must confirm that the scope of work performed by the PCA Consultant is consistent with the requirements of the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

B. PCA Consultant Independent Third Party Status

The PCA Consultant, its personnel and any subcontractors hired by the PCA Consultant must be independent third-parties. The Lender must confirm that the PCA Consultant, its personnel and its subcontractors are unrelated to, and do not have any financial or economic interest in, the Property, the Borrower, or any Affiliate of the Borrower. The PCA Consultant must disclose in the PCA Report if the PCA Consultant is an employee of the Lender or an Affiliate of the Lender.

C. PCA Consultant Qualifications

The PCA Consultant, individually or collectively, must meet the minimum qualifications, professional education, training, and experience required by this Section to perform site visits, evaluate multifamily property components and building systems, and prepare the PCA Report to the specifications set forth in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099). In addition, for a PCA including an HPB Module or for a standalone HPB Report, the PCA Consultant, individually or collectively, must meet any additional qualifications, professional education, training, and experience required by the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099). A qualified PCA Consultant must be in compliance with these qualifications from the time of engagement by the Lender through the delivery of the final PCA Report. The PCA Consultant must not be under suspension or debarment by HUD, involved as a defendant in a criminal action or in a civil action with HUD or Fannie Mae, and not be on FHFA’s SCP List. The Lender may require additional qualifications to those set forth in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

The PCA Report must be reviewed and signed by an employee of the PCA Consultant:

- with the qualification set forth in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099);
■ with experience commensurate for the subject Asset Class and scope (i.e., size, complexity, etc.);
■ who has reviewed and can certify as to the findings and conclusions set forth in the PCA Report; and
■ who is not a subcontractor of the PCA Consultant.

If the Lender retains a PCA Consultant that does not meet the educational qualifications or professional certifications, registrations or training required above, the Lender must assume the responsibility of qualifying the PCA Consultant based on the PCA Consultant’s alternative qualifications, which must be described and certified by the Lender in the Transaction Approval Memo and attached to the final version of the PCA Report delivered in the Mortgage Loan Delivery Package.

D. Field Observer Qualifications

The “Field Observer” is the representative of the PCA Consultant performing the site inspection at the Property. The Field Observer must have the qualifications set forth in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

E. PCA Consultant Insurance Requirements

The PCA Consultant must have the following insurance coverage in place:

■ Commercial General Liability insurance with limits of at least $1 million per occurrence and $2 million aggregate with a maximum deductible amount of $35,000;
■ Professional Liability insurance with limits of $1 million per claim and $2 million aggregate with a maximum deductible amount of $100,000;
■ Worker’s Compensation insurance; and
■ Automobile Liability insurance for all owned (if any), non-owned and hired vehicles of $1 million per accident.

The above policies must be issued by an insurance carrier rated by AM Best A-VI or higher. The PCA Consultant should have appropriate insurance coverage in place for traveling to and from the Property and conducting work at the Property.

The Lender must be listed as an additional insured on the PCA Consultant’s Commercial and General Liability insurance. The Lender must review the insurance coverage held by the PCA Consultant and maintain evidence of compliance by the Property Evaluator with the above requirements.
F. Lender Compliance and Quality Control Program

The Lender must confirm that the PCA Consultant maintains copies of all required certifications and documented experience for each individual responsible for working on the PCA and the final PCA Report.

The Lender is also required to have an annual quality control program in place to review (i) the quality of the Property Condition Assessments performed by its PCA Consultant, and (ii) compliance with the requirements set forth in this Section 316 and in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

Section 316.06. Property Information for PCA Consultant

The Lender should ensure that the PCA Consultant has access to sufficient information and documentation to adequately assess the physical condition of the Property.

Section 316.07. Required Number of Units Assessed in the PCA

The Lender must confirm that the PCA Consultant has selected and inspected sufficient units to state with confidence the present and probable future condition of each unit and building system. The minimum number of units to be accessed and inspected by the PCA Consultant is set forth in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

Section 316.08. Base Property Condition Assessment Scope of Work

A. General

The Base PCA identifies the minimum scope of work and areas of evaluation that must be performed for a PCA on any Property securing a Mortgage Loan. The Modules (see Section 316.10) identify additional scope of work for the PCA required to address specific Asset Classes or other requirements of the Guide. The PCA Report must document the Property’s condition according to the scope of the Base PCA and any required Modules as provided in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

B. Cost Estimates: Immediate Repairs and Replacement of Capital Items

The PCA Report must include cost estimates for:

- items defined as “Immediate Repairs”, which will be included by the Lender in the appropriate Completion/Repair Agreement; and
- items defined as “Replacement of Capital Items”, which will be included by the Lender in the appropriate Replacement Reserve Agreement.
1. Immediate Repairs

Immediate Repairs include the following.

- **Life Safety Repairs.** These are items that, left in the current condition, have the potential to cause injury, illness or death to employees, residents or guests at the Property. All Life Safety Repairs must be completed prior to Delivery of the Mortgage Loan for Purchase by Fannie Mae. Fannie Mae does not define repairs that would qualify as Life Safety Repairs. Unless considered a Life Safety violation by the appropriate governing law, Fannie Mae relies on the opinion of the PCA Consultant and the Lender to identify Life Safety items.

- **Critical Repairs.** These are items requiring immediate remediation to prevent additional substantial deterioration to a particular system, to address an immediate need observed, or to extend the life of a system critical to the operation of the Property. Critical Repairs include equipment or property components with extreme deficiencies that will cause damage or continued deterioration of a system if left unmitigated. Critical Repairs also include corrections of conditions that adversely affect ingress or egress and sustained occupancy at the Property. Critical Repairs must be completed within 6 months of the Mortgage Loan Origination Date or sooner, if recommended by the PCA Consultant or required by the Lender.

- **Deferred Maintenance.** These items are non-recurring capital items that are nearing the end of their useful life and have the potential to affect the Property’s financial and operational performance if not remediated within the time period outlined by the PCA Consultant. These items are recommended for repair or replacement by the Borrower within 12 months from the Mortgage Loan Origination Date or sooner, if recommended by the PCA Consultant or required by the Lender.

- **Items of Note.** These items are repair and maintenance items that need to be addressed by the Borrower with a per item repair estimate of $3,000 or less ($1,000 or less per item for Small Mortgage Loans). These items shall be completed by the Borrower within 12 months of the Mortgage Loan Origination Date. The Lender must include these items in the Completion/Repair Agreement even if no funds are escrowed in the Completion/Repair Escrow for their repair or replacement, and the Lender must confirm the completion of the repair or replacement of all Items of Note.

- **Short Term Replacement of Capital Items.** These are capital items or other Property needs as determined by the Lender based on the recommendation of the PCA Consultant. Repair or replacement of these items must be addressed within a specified time, which may exceed 12 months after the Mortgage Loan Origination Date. These items must be included in the
Completion/Repair Agreement, and the Lender must confirm the completion of the repair or replacement of all Short Term Replacement of Capital Items.

2. Replacement of Capital Items

Replacement of Capital Items are those items requiring repair, replacement or significant maintenance over the period commencing after the Mortgage Loan Origination Date and ending on the earlier of the date that is (a) 2 years after the Maturity Date of the Mortgage Loan, or (b) 12 years after the Mortgage Loan Origination Date. Replacement of Capital Items does not include costs for items identified as Immediate Repairs, unless additional recurring maintenance to these same items is also required during the term of the Mortgage Loan.

C. Description of Systems and Observations

1. Property Characteristics

The PCA Report must include a thorough review of all the Property’s component systems, including but not limited to:

- site;
- structural frame and building envelope (architectural components);
- mechanical, electrical, and plumbing systems;
- vertical transportation, including elevators and stairs;
- life safety and fire protection; and
- interior elements.

2. Moisture and Microbial Growth and Pest Management

The PCA Report must also assess and report on the presence of moisture, microbial growth and pests observed or detected at the Property.

Identification by the PCA Consultant of an issue that may be detrimental to the condition of the Property or its current or future operations for which the cause is unknown or the appropriate remediation is unknown will require additional assessment. The Lender is required to report the issue and to provide a plan of remediation to Fannie Mae. Post-closing cost estimates associated with remediation should be addressed as an Immediate Repair. The Lender must ensure that such additional remediation is completed by the Borrower according to the requirements in the Completion/Repair Agreement.

3. Photographic Documentation
The PCA Report must include photographs sufficient in number and quality to adequately document the condition of the Property, including its equipment and structure. Photographs of Immediate Repair items and Replacement of Capital Items must be representative of the damage, age or deteriorating condition of each such item or system.

D. Seismic Considerations and Design Consideration for Catastrophic Events

Based on the PCA Report and such as sources as deemed necessary in its discretion, the Lender must evaluate whether the Property is located in an area or region that may have a propensity to be impacted by a seismic event, natural disaster or catastrophic event. Seismic Considerations and Design Considerations for Natural or Catastrophic Events are discussed below and more extensively in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

1. Seismic Considerations

The PCA Report must identify whether the Property has a High Seismic Risk, as set forth in Section 321 of this Chapter, and using the most recent United States Geological Survey (USGS) data, which can be found using the United States Geological Survey (USGS) Peak Ground Acceleration (PGA) Calculator Tutorial. The Lender must include either the Property-specific PGA or the maximum PGA of the region in the Transaction Approval Memo.

If the Property is located in an area not subject to High Seismic Risk, the maximum PGA value for the Property’s region may be identified in lieu of the PGA for the specific Property.

If the Property is located in an area with High Seismic Risk, then:

- the PCA Report must include the Structural Risk Evaluation Questionnaire (Form 4099.C) to identify construction characteristics that may impact the Property’s structural integrity in a seismic event; and
- the Property must be evaluated for seismic risk as required by Part IIIA, Section 321, except that no additional seismic risk evaluation is required for a PCA being performed after the purchase of the Mortgage Loan by Fannie Mae.

2. Design Consideration for Catastrophic Events

The Lender must provide any relevant additional details or mitigants if the PCA Report identifies that the Property is located in an area prone to Catastrophic Events, including a discussion of:

- the construction types of the Improvements and expected performance in a Catastrophic Event; and
other conditions that may impact the performance or operation of the Property in a Catastrophic Event.

The Lender must identify the Property’s flood zone as provided by the current Flood Hazard Mapping by the Federal Emergency Management Agency (“FEMA”) in the Transaction Approval Memo.

E. Compliance With Zoning, Building, and Fire Code Regulations

The Lender must address in detail in the Transaction Approval Memo any issues raised by the PCA Report regarding (i) the Property’s zoning, (ii) recorded and outstanding building code violations, and (iii) regulatory requirements applicable to the Property.

1. Building and Fire Code Violations

The Lender must report all code violations to Fannie Mae as an attachment to the Transaction Approval Memo. Code violations include, but are not limited to, all applicable:

- building codes;
- health codes;
- fire codes;
- zoning ordinances; and
- energy auditing, retro-commissioning or benchmarking laws.

The Lender must ensure that:

- all outstanding code violations have been reviewed and approved;
- any code violations have been remedied or the Borrower has developed a remediation plan or mitigation for outstanding code violations;
- code violations that are Life Safety issues are remediated prior to the delivery of the Mortgage Loan for purchase by Fannie Mae;
- any outstanding code violation classified as a severe violation by the applicable local governmental authority is identified in the Immediate Repairs and escrowed at no less than 125% of all estimated remediation expenses; and
- code violations classified as minor violations by the local governmental authority and having a repair estimate of $3,000 or less ($1,000 or less for Small Mortgage Loans) are to be included as Items of Note in the Immediate Repair category. Repairs necessary to correct the code violation or bring the Property into compliance with the code must be included by the Lender in the appropriate Completion/Repair Agreement.
2. **Regulatory Compliance**

The Lender must address in the Transaction Approval Memo any issues identified in the PCA Report (or otherwise known to the Lender), regarding the Property’s compliance with the Americans with Disabilities Act (“ADA”) and the Fair Housing Act (“FHA”). If the Property is currently not in compliance and immediate repairs are required to the Property, such costs must be included (a) in the Immediate Repairs cost estimates by the PCA Provider, and (b) in the Completion/Repair Agreement by the Lender. If compliance with such laws would be required within the term of the Mortgage Loan, then the associated estimated cost should be evaluated for inclusion (a) in the Replacement of Capital Items cost estimates by the PCA Consultant, and (b) in the Replacement Reserve Agreement by the Lender.

3. **Energy Compliance and Reporting**

The Lender must evaluate compliance by the Property with federal, state, or local retro-commissioning, energy audit and reporting, or other energy-related compliance requirements. All estimated costs to bring the Property into compliance with such requirements must be included in the Completion/Repair Agreement, with all work to be completed no more than 12 months from Mortgage Loan Origination Date.

For a Property subject to federal, state or local energy consumption reporting requirements, the Lender must include the following energy consumption metrics for the Property in the Transaction Approval Memo:

- the ENERGY STAR® score on a 1 to 100 scale; and
- the Source Energy Use Intensity (“EUI”).

Both metrics are calculated by ENERGY STAR® Portfolio Manager (www.ENERGYSTAR.gov). The energy consumption reporting period must be for the same 12 month period as used by the Property for reporting its annual financial information.

If the Property is subject to federal, state or local energy consumption reporting requirements, a copy of the current Statement of Energy Performance from the Property’s account in ENERGY STAR® Portfolio Manager must be included as an Exhibit to the PCA Report.

F. **Historical Capital Repairs and Replacements, Work in Place and Planned Capital Improvements**

The Lender must request the Borrower to provide the PCA Consultant with:

- a summary of major capital expenditures over the prior three years;
Planned capital improvements are items identified by the Borrower and the Lender as scheduled to be completed at the Property over a designated period of time, but which are not determined by the PCA Consultant as being necessary to maintain the value and marketability of the Property. These items are not included in the cost estimate schedules to the PCA Report, but the Lender may, at its discretion, include them in the Replacement Reserve Agreement. Regardless of whether the planned capital improvement items are included in the Replacement Reserve Agreement, the Lender should confirm the completion of the repair or replacement of such items.

G. Areas of Additional Assessment

1. Known Problematic Building Materials and Property Design Issues

The potential effect on the Property of any reported or suspected known problematic construction materials or design issues (a “Known Problematic Building Material”) must be evaluated. Additional information on Known Problematic Building Materials frequently identified in multifamily housing can be found in the Instructions for Performing a Multifamily Property Condition Assessment - Known Problematic Building Materials (Form 4099G). Form 4099-G is not intended to be an all-inclusive list and the Lender is not relieved from addressing any other known problematic materials that may be identified at the Property. If any Known Problematic Building Materials exist, the Lender is required to include the following information as part of the Transaction Approval Memo:

- an evaluation of the known problematic building materials or design issues in the Property systems, including:
  - the condition of the material and quality of construction of that system;
  - a description of the historical and current condition and performance of that system; and
  - any remediation or retrofit of the system already in place or, if no retrofit is in place, whether any warning system for the system exists
  - if remediation is determined to be required in the future, the remediation or retrofit plan, and whether a warning system or O&M Plan is in place for the system;

- whether the Property is in compliance with any requirements of any state or local governmental authority to disclose the problematic material or design issue to tenants or to any other Person;

- an evaluation of the long-term financial impact of the problematic material, including the effect on future marketability, Property value, and estimated costs associated with future remediation;
- the Borrower’s expertise, experience, and financial capability to address any future financial impact of a known problematic material; and
- a recommendation as to how the known problematic materials should be addressed, including estimated replacement or retrofit costs to be included in the Completion/Repair Agreement or Replacement Reserve Agreement.

**Section 316.09. Property Condition Assessment Report**

The Lender is responsible for ensuring that the PCA Report is delivered by the PCA Consultant in the prescribed format, and includes, at a minimum, the scope or work and property component assessments described in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

**Section 316.10. Property Condition Assessment Modules**

**A. Purpose of Modules**

Modules are additional assessments of a Property’s physical conditions required for the Asset Class of the Property or a special product feature or execution of the Mortgage Loan secured by the Property, and the Lender must order each applicable PCA Module. Multiple modules may be required for a Property. The additional assessment of the Property based on the Modules shall be added to the findings of the Base PCA and integrated into the PCA Report.

**B. PCA Consultant Qualifications**

The Module assessments require additional qualifications to those listed in Section 316.05 for the Base PCA. A qualified PCA Consultant should have previous experience in performing property condition assessments and property inspections for the multifamily Asset Class of the Module being performed. The PCA Report must state the PCA Consultant’s prior experience completing each such Module being performed or with such Asset Class.

**C. Scope of Modules**

Each Module performed is to be consistent with the scope provided in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099). The findings from any PCA Module should be incorporated within the PCA Report and not as an appendix, exhibit, or attachment to the PCA Report or a stand-alone document.

**D. Available Modules.**

Please note that further details on the scope of each Module listed below are provided in the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).
1. **Student Housing Module**

   A Student Housing assessment is required for any Student Housing Property (see Part IIIB, Section 101).

2. **Seniors Housing Module**

   A Seniors Housing assessment is required for any Seniors Housing Property (see Part IIIB, Section 503).

3. **Manufactured Housing Community Module**

   A Manufactured Housing assessment is required for any Manufactured Housing Property (see Part IIIB, Section 601).

4. **Cooperative Property Module**

   A Cooperative Property assessment is required for any Cooperative Property (see Part IIIB, Section 801).

5. **Commercial/Retail Use Module**

   A Commercial/Retail Use assessment is required for any Property with any commercial use (see Part IIIB, Section 305).

6. **Integrated Pest Management Plan Module**

   The Integrated Pest Management Plan Module (“IPMP Module”) documents the pest condition of the Property and reviews any pest O&M Plan in place at the Property. The Integrated Pest Management Plan Module is required for:
   - Mortgage Loans delivered under Green Preservation Plus; or
   - other Asset Classes or product types as required by Fannie Mae from time to time.

   The Integrated Pest Management Plan does not replace the Termite Report where applicable.

7. **High Performance Building Module or Report**

   A PCA with a High Performance Building Module (or a standalone HPB Report) is required for any:
   - Green Rewards Mortgage Loan;
   - Green Preservation Plus Mortgage Loan; or
other Mortgage Loan of a product type or secured by an Asset Class as specifically required by Fannie Mae from time to time.

Any HPB Report and Form 4099.H requiring Fannie Mae approval pursuant to Part IIIB, Chapter 7 or Part IIIB, Chapter 11 must be submitted through DUS Gateway not later than 5 days prior to Rate Lock. In all cases, the Lender must submit both the HPB Module or HPB Report and the completed Form 4099.H as part of the Mortgage Loan Delivery Package by the Delivery Deadline.

Section 316.11. Streamlined Property Condition Assessment

If allowed elsewhere in the Guide, the Lender may have the PCA Consultant use the streamlined PCA scope of work described in the Streamlined Property Condition Assessment Requirements (Form 4099.A), provided that the PCA must otherwise conform to the requirements of this Section.

Section 316.12. Lender Review and Reporting Requirements

The Lender must review the PCA Report prior to the Delivery of the Mortgage Loan for Purchase by Fannie Mae to ensure that the PCA Report (including all required Modules) complies with the requirements of this Section. The Lender must:

- provide Fannie Mae with a final version of the PCA Report in the Lender’s Mortgage Loan Delivery Package, along with the Lender’s certification of any PCA Consultant not meeting the educational qualifications or professional certifications, registrations or training requirements set forth in this Chapter;
- verify that required Immediate Repairs, including Life Safety, Critical Repair, and Deferred Maintenance items, are addressed in the Lender’s Mortgage Loan Delivery Package;
- verify that the precise physical location of each recommended repair or improvement is identified within the PCA Report so that the Borrower can make the required repair or improvement; and
- provide the appraiser with any documentation from the PCA Report that may be required to accurately assess the value of the Property.

Section 317. Completion/Repairs (08/28/17)

Section 317.01. Evaluation of Property and Funding Completion/Repairs

The Lender must evaluate the physical condition of the Property, the financial condition of the Borrower, and all necessary life safety Completion/Repairs to determine whether the Borrower will be required to deposit funds in the Completion/Repair Escrow with the Lender. The estimated
expense of all Completion/Repairs must be aggregated with the cost of all other Rehabilitation Work to determine whether the Lender must also follow the requirements of Part IIIB, Chapter 3 for a Moderate Rehabilitation Property.

The Lender must include the following on the Completion/Repair Agreement:

- Property needs as determined by the Lender based on the recommendation of the PCA Consultant and identified as “Immediate Repairs” in the Property Condition Assessment, including:
  - life safety repairs;
  - critical repairs;
  - deferred maintenance; and
  - short-term replacement of capital items; and

- capital improvements to be made by the Borrower after the Mortgage Loan Origination Date (excluding items recommended by the PCA Consultant), and which the Borrower and Lender desire to be included in the Appraisal’s opinion of the market value of the Property on a prospective “as completed” basis.

Items included by the Lender on the Completion/Repair Agreement must be completed by the Borrower as follows:

- items identified as Immediate Repairs in the PCA must be completed according to the requirements of Part IIIA, Section 316 or Section 317.02;

- capital improvements to be made by the Borrower in addition to those included on the PCA and are included in the Appraisal opinion of the market value of the Property on an “as completed” basis, must be completed according to the requirements of Part IIIA, Section 310; and

- if the estimated expense of all Completion/Repairs plus the cost of all other Rehabilitation Work requires the Lender to follow the requirements of Part IIIB, Chapter 3 for a Moderate Rehabilitation Property, then:
  - items identified as a Completion/Repair by the PCA must be completed according to the requirements of Part IIIA, Section 316; and
  - all other Rehabilitation Work that was not identified as a Completion/Repair by the PCA must be completed according to the requirements of Part IIIB, Chapter 3.

**Section 317.02. Full Funding of Completion/Repairs**

When full or partial funding of the Completion/Repair Escrow is required, the Lender must use the Completion/Repair Agreement. The amount funded into the Completion/Repair Escrow on the Mortgage Loan Origination Date must be at least 125% of the estimated cost of the required Completion/Repairs.
Section 317.03. Waiver of Full Funding of Completion/Repair Escrow

If the Lender determines the Borrower has the financial wherewithal and capacity to fully address all Completion/Repairs outlined in the PCA, then the Lender may elect to waive full funding by the Borrower of the Completion/Repair Escrow for items included in the Completion/Repair Agreement. When full funding of the Completion/Repair Escrow is waived by the Lender, the Borrower must make written assurances in the Multifamily Loan Agreement that all necessary Completion/Repairs will be completed within a stated period of time following the Mortgage Loan Origination Date.

Section 317.04. Life Safety Issues

Life safety items and remediation of code violations must be included in the Completion/Repair Agreement, and always require the deposit of at least 125% of the estimated cost of the required Completion/Repairs into the Completion/Repair Escrow on the Mortgage Loan Origination Date. All life safety Completion/Repairs for an acquisition transaction must be made within 60 days after the Mortgage Loan Origination Date; life safety Completion/Repairs for all other transactions must be made prior to Delivery of the Mortgage Loan to Fannie Mae.

Section 317.05. Verification of Completion/Repairs

The Lender must verify during its Property inspections (or earlier, if necessary) that the Borrower has made all required Completion/Repairs at the Property, regardless of whether the Completion/Repair Escrow was funded.

Section 318. Replacement Reserve (08/28/17)

Section 318.01. Determination of Total Replacement Reserve

Based on the PCA Report and cost estimates, the Lender must complete a detailed replacement reserve schedule using the applicable Replacement Reserve Agreement to account for the anticipated replacement of all capital items and major maintenance needs of the Property over the period commencing after the Mortgage Loan Origination Date and ending on the earlier of the date that is (i) 2 years after the Maturity Date of the Mortgage Loan, or (ii) 12 years after the Mortgage Loan Origination Date (see Part IIIA, Section 316.08), and not otherwise included in the Completion/Repair Agreement. (For example, if the Mortgage Loan term is 10 years, then the schedule of expected capital item replacements and major maintenance needs must be 12 years.) The Lender must review the PCA Report to determine an acceptable amount to be funded into the Replacement Reserve for the Property based on the total estimated costs (adjusted for inflation) of completing the items included in the Replacement Reserve Agreement. The amount to be deposited by the Borrower into the Replacement Reserve must equal or exceed the estimated cost of all capital item replacements and major maintenance needs and repairs identified in the
Replacement Reserve Agreement over the required time period. Such 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.

The minimum annual amount to be escrowed in the Replacement Reserve for the replacement of capital items and major maintenance needs must be $200 per unit, unless a higher amount is specified elsewhere in this Guide. The Transaction Approval Memo must provide a detailed explanation of the Lender’s determination of the actual amount of the Replacement Reserve.

**Section 318.02. Full Funding of Replacement Reserve**

Full funding of the Replacement Reserve for the cost of all items included in the Replacement Reserve Agreement is required for:

- a Tier 2 Mortgage Loan; or
- a Property, without regard to its Tier, that requires Completion/Repairs in excess of:
  - 4% of the Underwriting Value of the Property for refinance transactions, or
  - 6% of the Underwriting Value of the Property for acquisition transactions.

The Lender must use the appropriate Replacement Reserve Agreement when full funding of the costs of all capital item replacements and major maintenance needs included in the Replacement Reserve Agreement is required.

**Section 318.03. Waiver of Full Funding of Replacement Reserve**

If a Property securing a Tier 3 or Tier 4 Mortgage Loan does not exhibit immediate Completion/Repairs in excess of the amount set forth in Section 318.02 above, and the Lender has determined the Borrower has the financial wherewithal and capacity to fully address future capital expenditures as outline in the PCA, then the Lender may elect to waive full funding by the Borrower of the Replacement Reserve for the cost of all items included in the Replacement Reserve Agreement. The Lender must use (i) the appropriate Replacement Reserve Agreement, and (ii) any applicable modifications to the Multifamily Loan Agreement (Form 6102 series and Form 6220 series), as applicable, when full funding of Replacement Reserve deposits is waived.

**Section 318.04. Alternative Funding of Replacement Reserve**

In lieu of full funding of the Replacement Reserve, the Lender may choose to have the Borrower fund the Replacement Reserve in the following alternative manner:

- at the Mortgage Loan Origination Date, an amount equal to at least 2 years of monthly deposits into the Replacement Reserve; plus
if the Lender determines it to be appropriate, an amount sufficient to cover any significant expenditures for capital item replacements and major maintenance needs that are expected over the period commencing after the Mortgage Loan Origination Date and ending on the earlier of the date that is (i) 2 years after the Maturity Date of the Mortgage Loan, or (ii) 12 years after the Mortgage Loan Origination Date.

The Lender must hold the 2 years of deposits for the entire term of the Mortgage Loan and funds in the Replacement Reserve will not be available for refund to the Borrower until the Mortgage Loan has been paid in full. The Lender must use (i) the appropriate Replacement Reserve Agreement, and (ii) any applicable modifications to the Multifamily Loan Agreement (Form 6102 series and Form 6221 series), as applicable, for alternative funding.

Section 318.05. Verification of Capital Item Replacements and Repairs

The Lender must verify during its Property inspections (or earlier, if necessary) that the Borrower is making all necessary repairs and maintenance at the Property, and replacing capital items as needed. If the Borrower is not doing so, and the Lender has waived or modified the Borrower’s requirement to deposit funds in the Replacement Reserve pursuant to Section 318.03 or 318.04, the Lender must reinstitute the normal monthly deposits to the Replacement Reserve and the normal reimbursement requisition process.

Section 319. Escrow Requirements for Real Estate Taxes and Insurance (06/03/13)

Section 319.01. Escrows Required

Fannie Mae requires monthly deposits for real estate taxes and insurance premiums for all Tier 2 Mortgage Loans.

Section 319.02. Waiver of Real Estate Tax Impounds.

If the Lender determines to waive monthly escrow deposits for real estate taxes and insurance for a Tier 3 or Tier 4 Mortgage Loan, the Lender is required to engage a third party tax search service to confirm payment of taxes. Fannie Mae reserves the right to reinstate the tax escrow in event of non-payment, late payment of taxes, or any Mortgage Loan default.

Section 319.03. Waiver of Insurance Impounds.

If the Lender determines to waive monthly escrow deposits for insurance premium for a Tier 3 or Tier 4 Mortgage Loan, the Borrower/Key Principal is required to provide annual proof to the Lender of payment of all insurance premiums in the form of paid invoices. Fannie Mae reserves the right to reinstate the insurance escrow in the event of non-payment, expired coverage,
policy reduction, cancellation or non-renewal of policy, or any Mortgage Loan default. Premium
financing and payment plans are not permitted.

Section 320. Environmental Matters (07/15/16)

Section 320.01. Requirements for Phase I Environmental Site Assessments

A. General

Fannie Mae requires a Phase I Environmental Site Assessment (a “Phase I Environmental Site Assessment”) for each Property securing a Mortgage Loan. The Phase I Environmental Site Assessment must assess the entire Property, and must be prepared by an environmental professional as that term is defined at 40 C.F.R. § 312.10 (an “Environmental Professional”). The Phase I Environmental Site Assessment must be prepared in accordance with the Guide and:

- the “All Appropriate Inquiries” rule, promulgated by the EPA (40 C.F.R Part 312), as amended, supplemented, or restated from time to time (“All Appropriate Inquiries”); and

Fannie Mae requires the Phase I Environmental Site Assessment be conducted to identify both Recognized Environmental Conditions and Business Environmental Risks. Prior to Fannie Mae’s confirming a Commitment to purchase a Mortgage Loan, the Phase I Environmental Site Assessment must:

- satisfy the requirements of this Section; and
- conclude that no Recognized Environmental Conditions exist that affect the Property or any portion thereof, unless expressly approved by Fannie Mae in writing.

Fannie Mae will not purchase any Mortgage Loan secured by a Property where the health or safety of its residents, guests, or employees are at risk because of an environmental condition, or where such condition has, or could have, a material adverse impact on the marketability or value of the Property.

B. Date of Environmental Site Assessment

The date of the Phase I Environmental Site Assessment may not be more than one hundred eighty days prior to the Mortgage Loan Origination Date, provided that the Lender may rely on a
preliminary or draft Phase I Environmental Site Assessment to obtain a Rate Lock or to request a Commitment from Fannie Mae.

C. Reliance

The Phase I Environmental Site Assessment must be addressed to, and explicitly authorize reliance by, among other Persons, the Lender, Fannie Mae and their respective successors and assigns.

D. Executive Summary

The Phase I Environmental Site Assessment must contain an executive summary that includes, at a minimum, the following conclusions of an Environmental Professional:

- the presence or absence of Recognized Environmental Conditions and Business Environmental Risks and, if present, a summary of each identified Recognized Environmental Condition and Business Environmental Risk;
- the presence of monitoring wells at, or adjacent to, the Property;
- the presence or absence of any data gaps and, if present, a summary of such data gaps, and a description of their significance to the ability of the Environmental Professional to identify Recognized Environmental Conditions and Business Environmental Risks on the Property; and
- the regulatory status of the Property (i.e., whether the Property is in compliance with Environmental Laws).

If a Recognized Environmental Condition or Business Environmental Risk is present, the executive summary must describe the Recognized Environmental Condition or Business Environmental Risk and, for each, state:

- the source, including whether off-site or on-site, if possible;
- whether a Phase II Environmental Site Assessment (a “Phase II Environmental Site Assessment”) or any other assessment, investigation, or further action is required or recommended with respect to that Recognized Environmental Condition or Business Environmental Risk; and
- a conclusion as to the human health or environmental risks, if any, posed by the Recognized Environmental Condition or Business Environmental Risk (e.g., if soil or groundwater contamination is present, whether vapor intrusion is a potential risk to human health or the environment).

The executive summary should also state if a Recognized Environmental Condition or Business Environmental Risk that previously existed at the property was fully remediated.
E. Business Environmental Risks

The Phase I Environmental Site Assessment must contain an expanded evaluation of other appropriate Business Environmental Risks, including all matters identified as a “non-scope consideration” in ASTM E1527. Without limiting the foregoing, Business Environmental Risks of particular concern to multifamily housing include those relating to asbestos or asbestos-containing materials, radon, lead-based paint, lead in drinking water, mold and unsatisfactory indoor air quality (as defined in ASTM E1527), wetlands and a compliance assessment. The Environmental Professional conducting the Phase I Environmental Site Assessment must generally assess, based on experience, interviews and reasonably available information, whether all Improvements located on the Property comply with all Environmental Laws. All Environmental Site Assessments relating to these Business Environmental Risks must be conducted:

- by an Environmental Professional;
- in accordance with Environmental Laws; and
- employing good commercial and customary practices for conducting these types of Environmental Site Assessments.

F. Additional Requirements

The Phase I Environmental Site Assessment must address all Hazardous Materials.

Where the Borrower is obtaining a Phase I Environmental Site Assessment as part of a brownfields assessment and characterization grant awarded by the EPA under CERCLA 42 U.S.C. § 9604 (k)(2)(B), as amended, supplemented, or restated from time to time, then the Phase I Environmental Site Assessment must also include within the scope of its investigation those other substances designated by the grant or the cooperative agreements, which may include controlled substances as defined in the Controlled Substances Act (21 U.S.C. § 802).

The Phase I Environmental Site Assessment should include a complete copy of any letter or other document from a Federal, state, or local governmental agency regarding the regulatory status of any Recognized Environmental Condition or Business Environmental Risks including, but not limited to, “no further action” or “no further remediation” letters.

If a property adjacent to the Property that is owned by any Person owning a Controlling Interest in the Borrower has been determined to have (i) a Recognized Environmental Condition, or (ii) had a Phase II Environmental Assessments performed, the Lender and the Environmental Professional preparing the Phase I Site Environmental Assessment on the Property must review and evaluate all Environmental Site Assessments performed on such adjacent property.
Section 320.02. Requirements for Phase II Environmental Site Assessments

If warranted by the results of the Phase I Environmental Site Assessment, the lack of data or information concerning the conditions on, at, or adjacent to the Property (e.g., a leaking underground storage tank) or for any other reason, the Lender must obtain and evaluate a Phase II Environmental Site Assessment that further identifies and quantifies the scope of any actual or potential Recognized Environmental Conditions or Business Environmental Risks. The Phase II Environmental Site Assessment must:

- conform to the ASTM Standard E1903-11, Standard Practice for Environmental Site Assessments: Phase II Environmental Site Assessment Process, as that standard may be amended, restated, modified or supplemented from time to time;
- specifically address the appropriate methods for remediation, abatement or containment of the Recognized Environmental Conditions or Business Environmental Risks;
- define the scope of work required to comply with all applicable Environmental Laws; and
- provide a reasonable timeline for completion and the cost to perform that scope of work.

Section 320.03. Lender’s Responsibilities

In addition to other requirements in this Section, the Lender must:

- conduct a thorough review and analysis of the Environmental Site Assessments, as well as any other environmental materials;
- provide the appraiser with any documentation from the Environmental Site Assessments that may be required to accurately assess the value of the Property;
- determine whether the state where the Property is located has an environmental “super-lien” statute and, if so, confirm that conditions on the Property are not likely to result in such a Lien encumbering the Property;
- disclose to Fannie Mae any knowledge of actual or suspected environmental conditions affecting the Property not disclosed in the Environmental Site Assessments;
- obtain, review and analyze all reports from any additional investigation, if any, recommended or indicated by the Phase I Environmental Site Assessment; and
- evaluate the potential risk of loss to, and liability of, the Borrower, the Property, Fannie Mae and the Lender posed by any Recognized Environmental Conditions, Business Environmental Risks, or other environmental conditions, whether or not disclosed by the Environmental Site Assessments.
If a Recognized Environmental Condition is present, the Lender must:

- refer the matter to outside environmental counsel selected and retained by Fannie Mae;
- obtain an estimate of the costs associated with any required Remediation Plan necessary to bring the Property into regulatory compliance, and obtain a schedule for the same;
- obtain from the Borrower a Remediation Plan prepared by an Environmental Professional, as required by Section 320.05 of this Chapter, detailing the specific work that is appropriate or required to remediate or abate a Recognized Environmental Condition or Business Environmental Risk affecting the Property, and the cost of, and a reasonable schedule for, performing such work to completion; and
- add 125% of the costs of the Remediation Plan to the Completion/Repair Escrow requirement of the Multifamily Loan Agreement.

Section 320.04. Additional Borrower Liability Protections

In addition to taking the steps necessary to satisfy the requirement under the All Appropriate Inquiries rule, the Borrower must:

- comply with the directives of, and information requests from, any governmental agencies that are overseeing the remediation of a Recognized Environmental Condition at, on, or about the Property;
- provide full cooperation, assistance, and access to Persons authorized to conduct response actions or natural resource restoration on the Property;
- comply with all applicable Environmental Activity and Use Limitations, including land use restrictions and institutional controls;
- take reasonable steps with respect to any Hazardous Substance or releases of any Hazardous Substance at, about, or under the Property;
- comply with all Environmental Laws in connection with the Property, the Improvements or all activities conducted at the Property; and
- provide all legally required notices with respect to the presence, release, or threatened release of any Hazardous Substance at, on, about, or under the Property.

Section 320.05. Remedial Actions

A. Remediation Plan

A Property that fails to meet a particular standard may, in some cases, be corrected through remedial actions. The scope of work and cost for any Remediation Plan must be recommended in writing by the Environmental Professional and, if applicable, must have received the written
approval of the governmental agency or agencies having jurisdiction over the Property with regard to the Recognized Environmental Condition. The Lender must contact the Fannie Mae Deal Team before seeking a Commitment if the Environmental Site Assessment does not confirm the:

- absence of any Recognized Environmental Condition; and
- compliance of the Property with all Environmental Laws.

In such circumstances, Fannie Mae will consider confirming a Commitment only if the Lender obtains from the Borrower an acceptable Remediation Plan detailing the scope of work necessary to treat, remediate, contain or abate all such Recognized Environmental Conditions identified and evaluated in the Environmental Site Assessments in a manner satisfactory to all government agencies with jurisdiction over the Property and in compliance with all Environmental Laws.

B. Operations and Maintenance Plans

The Property may have environmental or building conditions that are acceptable, but must be monitored throughout the life of the Mortgage Loan with appropriate ongoing operations and maintenance actions (an “Operations and Maintenance Plan” or an “O&M Plan”). Unless required by Environmental Laws to be removed, remediated or abated, the presence of any of the following require an O&M Plan.

<table>
<thead>
<tr>
<th>ANY PROPERTY CONTAINING</th>
<th>WHEN REQUIRED</th>
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<tbody>
<tr>
<td>Asbestos-containing materials</td>
<td>If the Improvements were built before 1981</td>
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<tr>
<td>Lead-based paint</td>
<td>If the Improvements were built before 1978</td>
</tr>
<tr>
<td>Radon</td>
<td>If recommended by an Environmental Professional</td>
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<tr>
<td>Underground Storage Tanks</td>
<td>If recommended by an Environmental Professional</td>
</tr>
<tr>
<td>History of Mold or Significant Water Intrusion/Leaks</td>
<td>Required at all times</td>
</tr>
<tr>
<td>Known Problematic Building Materials</td>
<td>If recommended by the PCA Consultant</td>
</tr>
</tbody>
</table>

When an O&M Plan is necessary, the following steps are required.

- An O&M Plan must be developed prior to the Mortgage Loan Origination Date. An Environmental Professional must prepare and submit the O&M Plan, stating that the provisions of the O&M Plan, if carried out with diligence, are sufficient to
maintain the Property in accordance with applicable Environmental Laws and sound business practice.

- The O&M Plan must be readily accessible at the Property.

- The Borrower must execute and deliver to the Lender an Operations and Maintenance Agreement and Plan setting forth the Borrower’s obligation to carry out the O&M Plan, including, if applicable, the preparation of documentation necessary to demonstrate compliance by the Borrower.

The Lender is responsible for assessing the Borrower’s ability to carry out any O&M Plan. A Mortgage Loan is not eligible for purchase by Fannie Mae if the Borrower and/or its agents are not financially or organizationally capable of satisfying the requirements of the O&M Plan.

Section 320.06. Environmental Indemnity Agreement

If a Recognized Environmental Condition is present on the Property for which the Lender is seeking Fannie Mae approval pursuant to Section 320.01 or otherwise, revisions to the Environmental Indemnity Agreement should be considered to protect the Lender and Fannie Mae from liability associated with (a) the Recognized Environmental Condition, including any Hazardous Substances, (b) the costs of remediation of the Recognized Environmental Condition, and (c) any violation of Environmental Laws by the Borrower. In addition, the Lender should consider the following revisions to the Environmental Indemnity Agreement to address any Recognized Environmental Condition:

- specifically including a reference to any Recognized Environmental Condition in the indemnity provisions;
- requiring the Borrower to pay for activities under a Remediation Plan, utilizing an escrow of 125% of the reasonably anticipated remediation costs and a reasonable schedule to complete the remediation;
- if appropriate, revising the representations and warranties such that:
  - the Borrower disclaims responsibility for any Recognized Environmental Conditions; and
  - states that it has conducted All Appropriate Inquiry under the All Appropriate Inquiry rule and established that it qualifies for landowner liability protections under CERCLA (e.g. Bona Fide Prospective Purchaser (42 U.S.C. § 9607(r)), Contiguous Property Owner (42 U.S.C. § 9607(q)), or Innocent Landowner (42 U.S.C. § 9601(35) & § 9607(b)(3)) defenses, and/or any state analog, as the same may be amended, restated, modified or supplemented from time to time;
- revising the covenants such that the Borrower must:
  - abide by any Environmental Activity and Use Limitations;
  - maintain liability protection status;
Section 321. Seismic Risk Assessment (08/28/17)

Section 321.01. Seismic Hazard and Risk Factors

A. Seismic Hazard

Any Property located on a site having a High Seismic Risk must be evaluated for Structural Risk Factors. An area or a specific site has a High Seismic Risk if identified by the most recent United States Geological Survey (USGS) data as having a Peak Ground Acceleration ("PGA") equal to or greater than 0.15g (i.e., 15% of the acceleration of gravity (g) using a 10% probability of exceedance in a 50 year period). The current USGS data can be found using the United States Geological Survey (USGS) Peak Ground Acceleration (PGA) Calculator Tutorial.

B. Structural Risk Factors

For a Property on a site having a High Seismic Risk, the Lender must identify Structural Risk Factors by completing Appendix C – Structural Risk Evaluation Questionnaire (Form 4099.C) to the Instructions for Performing a Multifamily Property Condition Assessment. A Structural Risk Factor exists if one or more of the Risk Factors questions in Section 3A or 3B, as applicable, on Form 4099.C are answered “Yes”. If a Structural Risk Factor is present, then the Lender must also perform a Seismic Risk Assessment.

C. Ineligible Structural Risk Factors

A Mortgage Loan is not eligible for purchase by Fannie Mae if it is secured by a Property (i) with a PGA equal to or greater than 0.15g, and (ii) having one or more of the following specific Structural Risk Factors:

- unreinforced masonry buildings with no seismic retrofit; or
- Improvements constructed on hillsides with a slope exceeding a 30 degree angle (50% slope).
Section 321.02. Seismic Risk Assessment Requirements

A. ASTM Seismic Risk Assessment

A Seismic Risk Assessment is required for any Mortgage Loan secured by a Property having a High Seismic Risk, and exhibiting any Structural Risk Factor.

The Seismic Risk Assessment must not be dated more than 12 months prior to the Commitment Date, and must be prepared as a Level 1 investigation in accordance with current seismic standards published by the American Society for Testing and Materials (ASTM), as amended from time to time. The current applicable standards are:

- ASTM E2026-16a “Standard Guide for Seismic Risk Assessment of Buildings”, which requires loss estimations for each Improvement on the Property, and a total aggregate loss estimation for the entire Property; and
- ASTM E2557-16a “Standard Practice for Probable Maximum Loss (PML) Evaluations for Earthquake Due-Diligence Assessments”.

The loss estimations contained in the Seismic Risk Assessment must include both the Scenario Expected Loss (SEL) and the Scenario Upper Loss (SUL). The Seismic Risk Assessment must also state whether or not any building or site stability condition exists, and under what conditions. The SEL, SUL, building stability, and site stability conclusions must be determined using the 10% in 50-year exceedance probability (the 475-year return period).

B. Professional Qualifications

Any Seismic Risk Assessment dated after June 30, 2018, must have the field investigation performed by a professional that meets the Field Assessor qualifications in the ASTM Standard. For any Seismic Risk Assessment dated on or prior to June 30, 2018, the field investigation Assessment may be performed by a professional that meets the Field Assessor qualifications in the ASTM Standard or by the Property Condition Assessment (PCA) Consultant or Field Observer so long as that professional:

- has 2 years of experience performing seismic risk assessments of buildings; and
- meets the PCA Consultant or Field Observer qualifications in Form 4099 – Instructions for Performing a Multifamily Property Condition Assessment.

Section 321.03. Acceptable Seismic Risk Assessment

A. Scenario Expected Loss (SEL) of 20% or Less, and Acceptable Building Stability

A Mortgage Loan is acceptable for purchase by Fannie Mae if it is secured by a Property where all Improvements:
B. Scenario Expected Loss (SEL) between 20% and 40%, and Acceptable Building Stability

If a Mortgage Loan is secured by a Property where any of the Improvements otherwise comply with the requirements of this Section, but (i) have an SEL of greater than 20%, but less than or equal to 40%, or (ii) do not meet the current building stability requirements set forth in ASTM E2026-16a, as provided in Section 321.03.A, the Lender must submit a waiver through DUS Gateway using the Seismic Guide waiver type, and including the following:

- Level 1 Seismic Risk Assessment, including Appendix X4 – ASTM E2557-16a Summary Findings Form;
- Analysis of seismic issues and Lender’s recommendation, describing in detail:
  - the severity and pervasiveness of the conditions driving the SEL and the stability issues;
  - risks presented to building stability, building damageability, site stability, and life safety; and
  - recommended retrofit or remediation requirements;
- Retrofit letter or Borrower’s retrofit plan/timetable;
- Form 4099C: Appendix C – Structural Risk Evaluation Questionnaire, to the Instructions for Performing a Multifamily Property Condition Assessment to identify Structural Risk Factors; and
- Property photos, including those areas significant to the seismic calculation or stability issue (minimum of six photos including an elevation view of any Improvements having an SEL over 20% or stability issue)

C. Scenario Expected Loss (SEL) greater than 40%

If any Improvements on the Property have a Scenario Expected Loss (SEL) that exceeds 40%, the Mortgage Loan is not eligible for purchase by Fannie Mae.

Section 321.04. Required Seismic Retrofit Ordinances

The proposed retrofit plan and associated costs for any Property required to be retrofitted under any law, regulation, or ordinance (e.g., San Francisco Ordinance No. 66-13, Los Angeles
Ordinances No. 183893 and No. 184081) must be described in the Seismic Risk Assessment. If the retrofit is not completed prior to Rate Lock, Fannie Mae approval is required.

**Section 321.05. Seismic Risk Mitigants**

For any Mortgage Loan secured by a Property where all Improvements have a Scenario Expected Loss (SEL) of greater than 20%, but less than or equal to 40%, the following may be required by Fannie Mae to mitigate seismic risk:

- seismic retrofit sufficient to meet stability requirements and reduce the SEL of all Improvements to 20% or below; or
- earthquake insurance coverage as outlined in Section 322.03(E) of this Chapter, provided, however, earthquake insurance may not be used to mitigate building collapse risk.

**Section 322. Property and Liability Insurance (07/15/16)**

**Section 322.01 General Insurance Requirements – Applies to All Policies**

**A. General**

Fannie Mae requires each Property to be covered by Property and Liability Insurance for the life of the Mortgage Loan. All capitalized terms or acronyms for insurance forms and policies refer to Insurance Services Office (“ISO”) forms and policies or their equivalent, and other capitalized terms and acronyms used throughout this Chapter have standard insurance industry meanings. The Borrower must be listed as a named insured on the policy. If the Borrower fails to maintain all required insurance coverage on a Property securing a Mortgage Loan, the Loan Documents authorize the use of Lender-placed insurance at the Borrower’s expense. The Lender must be able at all times to promptly provide all required insurance coverage in the event that the Borrower fails to do so. Policies covering Properties securing a Mortgage Loan must comply with all of the following provisions:

- Policies must be written on a per occurrence basis except for Earthquake and Professional Liability coverage, which may be written on a “claims made” basis.
- Policies must have a cancellation provision requiring the carrier to notify the “Mortgagee and/or Additional Insured” at least 30 days in advance of policy cancellation by the insurance carrier for any reason other than non-payment of premium.
- Policies must include a cancellation provision that provides for at least a 10 day written notification for non-payment of premium.
- Policies must name Fannie Mae as “Additional Insured” on General Liability and Excess/Umbrella policies. Blanket endorsements are acceptable as long as Fannie
Mae is insured, and Terms and Conditions of coverage endorsement does not reduce, limit, or exclude coverage as required by this Section 322.

- Property policies must contain a mortgagee clause and loss payable clause acceptable to Fannie Mae. An acceptable mortgagee clause would be:

Fannie Mae, its successors and/or assigns, as their interest may appear
c/o [Lender Name]
Lender’s Street Address or PO Box
Lender’s City, State and Zip Code

B. Blanket and Other Policies Covering More Than One Property

Use of a Blanket Policy (or policies) or multiple property policy (or policies) covering the Property and General/Excess/Umbrella/Professional Liability of the Borrower is acceptable, provided that the Lender’s analysis shows:

- the policy provides the same or better insurance coverage as a single property insurance policy;
- the Property is listed and identified in the policy or associated schedules;
- the policy complies with all other applicable requirements contained in this Section; and
- all insured properties covered by the policy either:
  - have common ownership with the Borrower, or with a Key Principal, 
    Principal or Affiliate of the Borrower; or
  - are managed by the same property management company.

The term “Blanket Policy” includes the following:

- Blanket policies;
- Blanket programs;
- Master policies;
- Master programs;
- First loss limit policies;
- First loss policies;
- Shared limit policies;
- Property programs;
- Pooled programs;
- Pooled insurance;
- Layered program; or
Other similar insurance programs where multiple property locations are insured under 1 policy.

The Lender must review the insurable values and location of all the properties insured by the Blanket Policy to ensure compliance with the insurance requirements of the Guide. The Lenders must also evaluate the concentration of property and liability exposure of all the insured properties covered by the Blanket Policy when assessing the adequacy of insurance, paying particular attention to concentration when evaluating catastrophic coverage.

Often Blanket Policy limits will be less than 100% of the total insurable value of the properties insured by the policy. This is acceptable when there are high limits and geographic dispersion. When there is a high catastrophic exposure in a geographically concentrated area, the Lender may determine that the coverage is not adequate. When this occurs, the Borrower must obtain additional coverage or a waiver request must be submitted to Fannie Mae. The Lender’s evaluation with recommendations, cost of compliant coverage, and compelling reasons to approve must accompany the waiver request.

The Lender is responsible for determining whether the Blanket Policy meets the requirements of the Guide. This determination, along with all supporting evidence, must be documented in the Lender’s underwriting and/or Servicing File. Fannie Mae may audit these files from time to time.

C. Blanket Policies for Properties Not Having Common Ownership

In many cases, programs insuring unrelated entities will provide evidence of insurance that appears to be a standard layered program. Red flags to look for may include (i) the Borrower adding its Property to an existing policy which causes a significant savings in premium, or (ii) a large, rounded limit of property insurance coverage. The Lender must confirm that all entities insured are related by common ownership with the Borrower or a Key Principal, Principal or Affiliate of the Borrower. This confirmation may be obtained through the insurance broker or agent.

The Lender must submit a waiver request to Fannie Mae if the insured properties covered by the Blanket Policy do not have common ownership with the Borrower, Guarantor, Key Principal, Principal or Affiliate of the Borrower, or are not managed by the same property management company. Such a waiver request by the Lender must be accompanied by a financial rating of the entity administering the program to determine the strength and acceptability of its business practices. Fannie Mae will accept such rating from Demotech, Moody’s, Standard & Poor’s or Fitch on a case by case basis. Suitability of the rating will be determined by Fannie Mae. If a rating is not available, the entity administering the program must be reviewed and approved by Fannie Mae.
D. Insurance Carrier Rating

All property and casualty insurance carriers must meet 1 of the following rating requirements, even if it is rated by 1 or more rating agencies or conditions:

- A.M. Best Company general policyholder's rating of ”A-” or better, and a financial performance index rating of “VI” or better;
- state wind pools or state funds, if they are the only coverages that can be obtained; or
- flood coverages issued by the National Flood Insurance Program (“NFIP”) or written by companies approved under the NFIP’s “Write Your Own” program.

For existing insurance policies, the Lender has the delegated authority to waive the carrier rating requirement, but only for the duration of the policy term, if all of the following conditions are satisfied:

- the carrier is not downgraded below a B++ AM Best rating;
- the Lender monitors the rating of the carrier on a quarterly basis to confirm that the B++ rating is not further downgraded; and
- the Lender retains quarterly evidence of the carrier’s AM Best rating in the Servicing File.

If the insurance carrier is downgraded below a B++ rating, the Lender must instruct the Borrower to replace coverage immediately with a compliant carrier even though the policy has not yet expired.

E. Term

Policies must have a minimum 12-month policy term. For new Mortgage Loans, a Property may be added mid-term to an existing 12-month policy.

The Lender has the delegated authority to waive the policy term requirement if the following conditions are satisfied:

- upon expiration, the policy must be renewed for at least 12 months; and
- the Policy must not be short-term due to non-renewal or cancellation by the insurance carrier.

F. Payment of Premium

Premiums for all required policies must be paid in full with no premium financing. For Mortgage Loans where no insurance impositions are being collected, the Lender must obtain evidence that all policies are paid in full annually.
The Lender has the delegated authority to waive the requirement prohibiting the payment of the annual premium in installments if the following conditions are satisfied:

- the Lender must escrow funds sufficient to cover 3 months of required installments;
- the Lender must collect a confirmation of payment by the Borrower of each installment, and retain the receipt in the Servicing File; and
- annually, at renewal, the Lender should attempt to reinstate the annual payments.

The Lender also has the delegated authority to waive the requirement prohibiting premium financing if the following conditions, along with any others deemed appropriate by the Lender, are satisfied on an annual basis:

- the Lender must escrow funds sufficient to cover 3 months of required installments;
- a copy of the finance agreement is obtained by the Lender, reviewed, and retained in the Servicing File;
- the Lender obtains a receipt confirming each installment payment of the annual premium;
- the terms of the finance agreement do not negatively affect the Lender or Fannie Mae;
- the finance agreement does not contain conditions that will prohibit the Lender from receiving insurance proceeds as required by the Loan Documents;
- the Lender must be notified of any cancellation of the policy as required by the Guide;
- Fannie Mae must be listed as “Mortgagee and Loss Payee, and as Additional Insured” on all applicable insurance policies.
- annually, at renewal, the Lender must determine whether the Borrower can terminate the need for premium financing in lieu of making annual payments.

G. Evidence of Insurance

The Borrower must provide to the Lender evidence of insurance for the Property on or before the closing of the Mortgage Loan or the policy’s renewal date. Evidence of insurance coverages for the Property must be provided as follows.

- Temporary Evidence – Any of the following are acceptable forms of temporary evidence of insurance:
  - ACORD 28 – “Evidence of Commercial Property Insurance” (most recent version or per state requirements if applicable), combined with ACORD 25 – “Certificate of Liability Insurance”;
  - ACORD 75 – “Insurance Binder”; or
Mortgage Bankers Association (MBA) Evidence of Insurance – Commercial Property Form. In states where the MBA form is filed and approved, the appropriate state form must be used otherwise the most recently revised MBA form should be used.

If an ACORD certificate is not available, Fannie Mae will accept a letter signed by the Borrower and the licensed insurance broker/agent certifying that all coverage requirements and terms and conditions meet Fannie Mae’s requirements. Temporary coverage, such as an insurance binder (Acord 75 - “Insurance Binder”), has an expiration date that must be monitored by the Lender and renewed on or before its expiration date.

Permanent Evidence – The following are acceptable forms of permanent evidence of insurance.

- The original or duplicate copy of each current insurance policy, which must be received, reviewed and placed in the Lender’s Servicing File within 90 days after the delivery of the Mortgage Loan or the date of the insurance policy renewal. Except for an NFIP policy, only the complete insurance policy is sufficient evidence of coverage. Insurance policy declarations pages, single policy endorsements, insurance binders and certificates of insurance are not an acceptable form of permanent insurance coverage. The Policy Declaration page of an NFIP policy is acceptable evidence of flood insurance coverage.

- For Properties securing a Mortgage Loans with an Unpaid Principal Balance (“UPB”) of $10 million or below, the “MBA Evidence of Insurance – Commercial Property Form” is acceptable under the following conditions:
  - Form must be complete in its entirety;
  - Form must have an original signature of an individual authorized to execute the “Evidence of Insurance” on behalf of the insurance carriers issuing each policy of Property Insurance described on the form; and
  - In states where the form is filed and approved, the appropriate state form must be used, otherwise the most recently revised MBA Evidence of Insurance – Commercial Property Form should be used.

- For Properties securing a Mortgage Loan with an UPB in excess of $10 million and/or for multi-layered Blanket Policies, including Master Property Insurance Programs, a duplicate copy of the primary insurance policies must be received along with a letter (signed and dated on company letterhead) from an individual authorized to execute any evidence of insurance on behalf of the insurance carriers issuing each policy of Property Insurance, and stating that all policies follow the same Terms, Conditions and Exclusions as the primary policy. Any differences must be specified.
Fannie Mae recognizes that some insurance carriers (such as State Farm) use “boiler plate” policies that do not change from year to year. In these cases, the Lender may keep a specimen kit or library of such policies and endorsements, requesting only the renewal Declarations Page along with a list of endorsements as permanent evidence of insurance. The Lender must confirm that the policies on file are current.

H. Insurance Data Requirements

On an annual basis, the Lender must complete and retain an insurance compliance checklist in the Servicing File, in either electronic or hard copy format. The Lender must retain information relating to all insurance coverages for each Mortgage Loan. Such information must be provided to Fannie Mae upon request. For each type of required insurance coverage, the following must be included:

- Name of Insurer;
- Name of Insured/Borrower;
- Coverage Amount;
- Deductible;
- Expiration Date;
- Policy term;
- Description of Property insured; and
- Coinsurer and percent, if applicable.

I. Insurance Waivers

All Lender-delegated waivers must be entered in DUS Gateway along with supporting documents and analysis. The Lender should use the Insurance – Delegated Waiver drop down selection box. This includes Lender-delegated waivers for excess flood and terrorism insurance. For existing Mortgage Loans, the Lender must maintain the analysis of the waiver request in the Servicing File.

Any request for a non-delegated waiver of insurance requirements prior to delivery of the Mortgage Loan to Fannie Mae must be submitted in DUS Gateway at least 72 hours prior to Rate Lock. Any request for a waiver of insurance requirements after delivery of the Mortgage Loan to Fannie Mae must be submitted by completing and delivering the Multifamily Waiver Review Form – Insurance (Form 4638) through the Multifamily Asset Management Portal (MAMP). The Lender must retain the Multifamily Waiver Review Form – Insurance (Form 4638), all supporting documentation, and the waiver approval in its Servicing File.

Insurance waivers granted by Fannie Mae shall be for the entire Mortgage Loan term unless otherwise specified by Fannie Mae at the time the waiver is approved.
Section 322.02. Property Damage

This Section covers the guidelines and requirements for Property Insurance. Fannie Mae requires that each Property be covered by Property Insurance for the life of the Mortgage Loan.

A. Property Damage Minimum Requirements

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<th>What is Required</th>
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<tr>
<td>When Applicable</td>
<td>For all Asset Classes</td>
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</tbody>
</table>

- Single-building Properties: 100% of estimated insurable value.
- Multiple-building Properties: 90% of estimated insurable value. Coinsurance is allowed up to 90% provided that the amount of coverage in place is at least 90% of the estimated insurable value of the Improvements and Business Income including Rental Value.
- The Lender is delegated the authority to accept “Actual Cash Value” as a valuation method for roofs up to 15 years old if the Lender confirms that:
  - the Borrower is unable to obtain compliant coverage in the current insurance market;
  - no prior roof damage has occurred, the roof is inspected annually, and a maintenance plan is in place to address roof repair or replacement within 5 years;
  - the Mortgage Loan is not on Fannie Mae’s Watch List; and
  - the valuation will be based on “Replacement Cost” after the roof is replaced.

Note:
- Multiple building properties are not attached, have no common walls and no common roof lines.
- Coinsurance is a property insurance provision that penalizes the insured's loss recovery if the limit of insurance purchased is not at least equal to a specified percentage of the value of the insured property.
- For properties located in an area that is potentially prone to Catastrophic Events, see Section 322.03 of this Chapter for additional information.

<table>
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<tr>
<th>Minimum Amount of Coverage</th>
<th>$15,000 per occurrence for a Property securing the Mortgage Loan that is on a policy with less than $5 million in total insurable values.</th>
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<td></td>
<td>$25,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $5 million and less than $50 million in total insurable values.</td>
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<tr>
<td>What is Required</td>
<td>Ordinance or Law Coverage</td>
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<tr>
<td>$100,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $50 million and less than $100 million in total insurable values.</td>
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</tr>
<tr>
<td>$250,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $100 million in total insurable values.</td>
<td></td>
</tr>
<tr>
<td>$100,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $50 million and less than $100 million in total insurable values.</td>
<td></td>
</tr>
<tr>
<td>$250,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $100 million in total insurable values.</td>
<td></td>
</tr>
<tr>
<td>Either (i) Business Income, including Rental Value, or (ii) Rental Value (if no other source of income applies).</td>
<td></td>
</tr>
<tr>
<td>Coverage is required for all property insurance perils including windstorm, flood, earthquake, and terrorism even if written on a stand-alone policy.</td>
<td></td>
</tr>
<tr>
<td>Coverage based on Actual Loss Sustained for 12 months, or coverage based on annual Effective Gross Income for the most recent year-end financials. and</td>
<td></td>
</tr>
<tr>
<td>For Mortgage Loans with a UPB of $25 million or more – 90 day Extended Period of Indemnity option.</td>
<td></td>
</tr>
<tr>
<td>Same as required for Property Damage in Section 322.02.A of this Chapter, or up to a 72 hour waiting period.</td>
<td></td>
</tr>
</tbody>
</table>

B. Business Income (including Rental Value) Minimum Requirements

What is Required

- Either (i) Business Income, including Rental Value, or (ii) Rental Value (if no other source of income applies).
- Coverage is required for all property insurance perils including windstorm, flood, earthquake, and terrorism even if written on a stand-alone policy.

When Applicable

- For all Asset Classes

Minimum Amount of Coverage

- Coverage based on Actual Loss Sustained for 12 months, or coverage based on annual Effective Gross Income for the most recent year-end financials.
- For Mortgage Loans with a UPB of $25 million or more – 90 day Extended Period of Indemnity option.

Maximum Deductible

- Same as required for Property Damage in Section 322.02.A of this Chapter, or up to a 72 hour waiting period.

C. Ordinance or Law Coverage

What is Required

- Any Property that contains any type of non-conformance under current land use laws or ordinances (building, zoning, energy management, “green”, etc.) and cannot be rebuilt “as is”.
- Any Property with a construction date 25 years or more before closing.

When Does it Apply?

- Note: “As is” means the ability to be rebuilt with the same building footprint and square footage, within the municipality’s required timeframe and without increasing the non-conformity or as otherwise defined by the municipality. The Lender should pay special attention to required timeframe and its feasibility.

Minimum Amount of Coverage

- Coverage A - Loss of Undamaged Portion of the Property, in an amount equal to the greater of (i) 100% of the insurable value of the Property, on a “Replacement Cost” valuation, less the damage threshold of the local building ordinance, or (ii) 50% if the threshold of the local building ordinance is not explicitly stated.
For example:
The Property has an insurable value of $10 million. If the damage threshold of the local building ordinance is 75%, then $2.5 million is required for Coverage A. If the threshold is not known, then $5 million is required.

- Coverage B – Demolition/Debris Removal Cost in the minimum amount of 10% of the insurable value of the Property.
- Coverage C - Increased Cost of Construction in the minimum amount of 10% of the insurable value of the Property.

Note: When Ordinance or Law Coverage is offered with A, B and C combined, the minimum limit must be the Coverage A calculation, as explained above, plus 20% of the insurable value of the Property.

When B and C are combined, the minimum limit must be 20% of the insurable value of the Property.

For example:
The Property has an insurable value of $10 million. If the damage threshold of the local building ordinance is 75%, then $2.5 million is required for Coverage A. A, B and C combined would require $2.5 million, plus $2 million, or $4.5 million total.

| Maximum Deductible | Same as required for Property Damage in Section 322.02.A of this Chapter. |

D. Boiler and Machinery/Equipment/Mechanical Breakdown Minimum Requirements

<table>
<thead>
<tr>
<th>What is Required</th>
<th>Full Boiler and Machinery Coverage, which covers loss arising from the operation of pressure, mechanical, and electrical equipment.</th>
</tr>
</thead>
<tbody>
<tr>
<td>When Does it Apply?</td>
<td>Full Boiler and Machinery coverage is required if the Improvements contain any centralized HVAC boiler, water heater or other high-pressure vessels that are in operation and regulated by the state where the Property is located.</td>
</tr>
<tr>
<td>Minimum Amount of Coverage</td>
<td>100% of the insurable value of each building that houses equipment, on a “Replacement Cost” valuation.</td>
</tr>
<tr>
<td>Maximum Deductible</td>
<td>Same as required for Property Damage in Section 322.02.A of this Chapter.</td>
</tr>
</tbody>
</table>

E. Builder’s Risk Minimum Requirements

<table>
<thead>
<tr>
<th>What is Required</th>
<th>Builder’s Risk Insurance</th>
</tr>
</thead>
</table>
The sections below apply to areas prone to Catastrophic Events.
## B. Windstorm Minimum Requirements

<table>
<thead>
<tr>
<th>What is Required</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>If the Special Causes of Loss Form excludes any type of wind-related</td>
<td>Catastrophic Event, a separate windstorm insurance policy must</td>
</tr>
<tr>
<td>Coverage obtained through state insurance plans, other state-managed windstorm</td>
<td>be obtained.</td>
</tr>
<tr>
<td>or beach erosion insurance pools are acceptable if that is the only windstorm</td>
<td>Coverage is not otherwise available in the insurance market. The</td>
</tr>
<tr>
<td>coverage available in an insurance market. The Lender must document that</td>
<td>Lender must document that coverage is not otherwise available in</td>
</tr>
<tr>
<td>Note: State insurance plans, other state-managed windstorm and beach erosion</td>
<td>the insurance market.</td>
</tr>
<tr>
<td>insurance pools are not acceptable for non-catastrophic perils.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>When Applicable Required for all Properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Amount of Coverage</td>
</tr>
<tr>
<td>• 100% of the insurable value, on a “Replacement Cost” valuation.</td>
</tr>
<tr>
<td>• Either (i) Business Income, including Rental Value, or (ii) Rental</td>
</tr>
<tr>
<td>Value (if no other source of income applies), as follows:</td>
</tr>
<tr>
<td>• Coverage based on Actual Loss sustained for 12 months, or if</td>
</tr>
<tr>
<td>not available, coverage based on annual Effective Gross Income</td>
</tr>
<tr>
<td>for the most recent year-end financials; and</td>
</tr>
<tr>
<td>For Mortgage Loans with a UPB above $25 million – 90 day</td>
</tr>
<tr>
<td>Extended Period of Indemnity option.</td>
</tr>
<tr>
<td>• Rent Loss coverage is required even if written on a stand-alone</td>
</tr>
<tr>
<td>basis.</td>
</tr>
<tr>
<td>NOTE: Windstorm “Probable Maximum Loss” (“PML”) calculations</td>
</tr>
<tr>
<td>cannot be used as the primary factor for determining adequate</td>
</tr>
<tr>
<td>windstorm coverage.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maximum Deductible</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The greater of (i) 10% of the insurable value of the Mortgaged Property, or</td>
</tr>
<tr>
<td>(ii) the maximum allowed for Property Damage in Section 322.02.A of this</td>
</tr>
<tr>
<td>Chapter.</td>
</tr>
<tr>
<td>For example (assuming 10% of the insurable value):</td>
</tr>
<tr>
<td>The Property has an insurable value of $10 million with a “Total Insurable</td>
</tr>
<tr>
<td>Value” (“TIV”) of $50 million on the policy. The maximum deductible is 10% of</td>
</tr>
<tr>
<td>$10 million, or $1 million.</td>
</tr>
<tr>
<td>• Business income, including rental value – maximum of two weeks or equivalent.</td>
</tr>
</tbody>
</table>

## C. Flood Minimum Requirements

1. The Lender must determine, for every Mortgage Loan, whether any of the Improvements are located in a Special Flood Hazard Area (“SFHA”) Zone A or Zone V as defined by the Federal Emergency Management Agency (“FEMA”). If properties are in a SFHA (Zone A or Zone V), then the “Notice to Borrower of Special Flood Hazard and
Federal Assistance” form must be sent to the Borrower. Note: this form is included in the Flood Determination Certificate.

<table>
<thead>
<tr>
<th>What is Required?</th>
<th>Flood Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>When Applicable</td>
<td>- Flood insurance is required for Property Improvements located in SFHA, Zone A or Zone V.</td>
</tr>
<tr>
<td></td>
<td>- If the improved portions of the Property are not located in a SFHA as verified by the Flood Determination Certificate issued in conformance with the requirements specified in this Section 322.03.B, then flood insurance is not required, even if the unimproved portions of the Property are in an SFHA.</td>
</tr>
<tr>
<td>Minimum Amount of Coverage</td>
<td>- 100% of the insurable value of the Improvements, Fixtures, and Goods (as defined in the Security Instrument) located in a SFHA, on a “Replacement Cost” valuation.</td>
</tr>
<tr>
<td></td>
<td>- Either (i) Business Income, including Rental Value, or (ii) Rental Value (if no other source of income applies), as follows:</td>
</tr>
<tr>
<td></td>
<td>- Coverage based on Actual Loss sustained for 12 months, or if not available, coverage based on annual Effective Gross Income for the most recent year-end financials;</td>
</tr>
<tr>
<td></td>
<td>and</td>
</tr>
<tr>
<td></td>
<td>For Mortgage Loans with a UPB above $25 million – 90 day Extended Period of Indemnity option.</td>
</tr>
<tr>
<td></td>
<td>- Rent Loss coverage is required even if written on a stand-alone basis.</td>
</tr>
<tr>
<td>Maximum Deductible</td>
<td>- The greater of (i) 5% of the insurable value of the Mortgaged Property, or (ii) the maximum allowed for Property Damage in Section 322.02.A of this Chapter.</td>
</tr>
<tr>
<td></td>
<td>For example (assuming 5% of the insurable value):</td>
</tr>
<tr>
<td></td>
<td>The Property has an insurable value of $10 million with a “Total Insurable Value” (“TIV”) of $50 million on the policy. The maximum deductible is 5% of $10 million, or $500,000.</td>
</tr>
<tr>
<td></td>
<td>Note: The acceptable deductible for a “Difference in Conditions” (“DIC”) policy is the limit of underlying NFIP policy.</td>
</tr>
<tr>
<td></td>
<td>- Business income, including rental value – maximum of two weeks or equivalent.</td>
</tr>
</tbody>
</table>

2. Flood insurance must be in the form of the standard policy issued by members of the NFIP. Other policies that meet the NFIP's requirements, such as those issued by licensed property and casualty insurance companies that are authorized to participate in NFIP's “Write Your Own” program, are acceptable. Equivalent flood insurance policies written by insurance carriers are acceptable with an adequate AM Best rating (A-/VI).
3. Conditions may change over time and zones may be remapped, resulting in the reclassification of non-flood areas. After a Mortgage Loan is sold to Fannie Mae, the Lender must ensure that flood insurance is obtained if any Property Improvements are later determined to lie within a remapped SFHA Zone A or Zone V. Methods of compliance with request are discussed in subsections 4 and 5 below.

4. If conditions warrant, Fannie Mae or the Lender may require flood insurance for Property Improvements located outside of a SFHA Zone A or Zone V but within an area designated by FEMA as Zone X, such as a Property that is in an area subject to flooding due to storm water or within close proximity to a SFHA boundary.

5. If the insurance coverage available under the NFIP is not sufficient to meet the requirements set forth above, then the Borrower must obtain Excess Flood or Difference in Condition (“DIC”) insurance to provide the difference up to the total insurable value of the Property, on a “Replacement Cost” valuation, including Business Income and Rental Value coverage.

The Lender is delegated the authority to waive compliance with the Excess Flood or Difference in Condition (“DIC”) coverage requirements when the coverage significantly impacts the Debt Service Coverage such that the coverage is not economically feasible. However, the Borrower must secure an excess flood insurance limit that is reasonable given the exposure subject to the Lender’s discretion. In this context, the statement “significantly impacts the Debt Service Coverage such that the coverage is not economically feasible,” means that the purchase of Difference in Condition (“DIC”) or Excess Flood coverage would cause a decrease in the Debt Service Coverage by a minimum of ten (10) basis points. Before waiving the coverage, the Lender must verify that the Borrower has made a good faith effort to obtain the coverage. The Borrower should provide a minimum of three (3) quotes and/or declination letters. The Lender must review them to ensure that the Borrower is not providing artificially high quotes or requesting flood insurance from companies not writing flood insurance in an attempt to avoid purchasing the coverage.

D. Flood Insurance Determination

1. For every Mortgage Loan, the Lender must determine whether any of the Property Improvements are located in a SFHA and must document each determination on the most recent edition of the Standard Flood Hazard Determination form issued by FEMA. The Lender must obtain flood-zone determinations from a qualified third-party flood-zone determination firm. The Lender must place a completed copy of the Standard Flood Hazard Determination form in the Lender Servicing File for the Mortgage Loan. Fannie Mae expects the Lender to exercise care and sound judgment in its selection of a third-party flood-zone determination firm.
2. Because conditions may change over time, the status of a SFHA zone may change. As a result, the Lender must obtain from its flood zone determination firm “life-of-loan” monitoring and coverage, which means that the monitoring company will notify the Lender if and when flood insurance is required for a monitored Property. The Lender must ensure that the monitoring company it selects agrees to continue monitoring all of the covered Properties in the event that the Lender sells or otherwise transfers its servicing rights to another Servicer.

3. Elevation Certificates are not valid to determine if Improvements are located in a SFHA. Only a Letter of Map Amendment or Letter of Map Revision issued by FEMA will remove an improvement from a SFHA.

E. Earthquake Insurance Minimum Requirements

<table>
<thead>
<tr>
<th>What is Required?</th>
<th>Earthquake Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>When Applicable</td>
<td>When required by Fannie Mae.</td>
</tr>
</tbody>
</table>
| Minimum Amount of Coverage | ▪ 100% of the insurable value of the Property Improvements, on a “Replacement Cost” valuation.  
▪ Either (i) business income, including rental value, or (ii) rental value (if no other source of income applies), as follows: 
  • Coverage based on Actual Loss sustained for 12 months, or if not available, coverage based on annual Effective Gross Income for the most recent year-end financials;  
  and  
  For Mortgage Loans with a UPB above $25 million – 90 day Extended Period of Indemnity option.  
  • Rent Loss coverage is required even if written on a stand-alone basis. |
| Maximum Deductible | ▪ The greater of (i) 10% of the insurable value of the Mortgaged Property, or (ii) the maximum allowed for Property Damage in Section 322.02.A of this Chapter.  
  For example (assuming 10% of the insurable value): The Property has an insurable value of $10 million with a “Total Insurable Value” ("TIV") of $50 million on the policy. The maximum deductible is 10% of $10 million, or $1 million.  
▪ Business income, including rental value – maximum of two weeks or equivalent. |

F. Terrorism Insurance Minimum Requirements

<table>
<thead>
<tr>
<th>What is Required?</th>
<th>Terrorism Insurance</th>
</tr>
</thead>
</table>

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Multifamily Selling and Servicing Guide  
Part IIIA  
08/28/17
<table>
<thead>
<tr>
<th>When Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>- For any Mortgage Loan with a UPB less than $25 million, the Lender is</td>
</tr>
<tr>
<td>delegated the authority to waive terrorism coverage provided that the</td>
</tr>
<tr>
<td>Lender has completed an analysis that shows that the Property is</td>
</tr>
<tr>
<td>not a significant terrorist risk; the analysis shall include the Property</td>
</tr>
<tr>
<td>location in relation to a potential terrorist target such as, but not</td>
</tr>
<tr>
<td>limited to, tourist attractions, mass transportation facilities, urban</td>
</tr>
<tr>
<td>areas, government buildings, etc., concentrations of risk and overall</td>
</tr>
<tr>
<td>exposures.</td>
</tr>
<tr>
<td>- For any Mortgage Loan with a UPB that is greater than or equal to $25</td>
</tr>
<tr>
<td>million but less than $50 million, the decision to obtain terrorism</td>
</tr>
<tr>
<td>coverage may be waived only by Fannie Mae. Any waiver request must</td>
</tr>
<tr>
<td>include the above referenced analysis and cost to obtain compliant</td>
</tr>
<tr>
<td>coverage.</td>
</tr>
<tr>
<td>- For any Mortgage Loan greater than or equal to $50 million, terrorism</td>
</tr>
<tr>
<td>coverage is required.</td>
</tr>
<tr>
<td>- For both property and liability exposures.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Minimum Amount of Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 100% of the insurable value of the Property Improvements, on a “Replacement</td>
</tr>
<tr>
<td>Cost” valuation.</td>
</tr>
<tr>
<td>- Either (i) business income, including rental value, or (ii) rental value</td>
</tr>
<tr>
<td>(if no other source of income applies), as follows:</td>
</tr>
<tr>
<td>▪ Coverage based on Actual Loss sustained for 12 months, or if not</td>
</tr>
<tr>
<td>available, coverage based on annual Effective Gross Income for the</td>
</tr>
<tr>
<td>most recent year-end financials; and</td>
</tr>
<tr>
<td>▪ For Mortgage Loans with a UPB above $25 million – 90 day Extended</td>
</tr>
<tr>
<td>Period of Indemnity option.</td>
</tr>
<tr>
<td>- Rent Loss coverage is required even if written on a stand-alone basis.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maximum Deductible</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Either:</td>
</tr>
<tr>
<td>▪ Not more than the deductible of the Property Insurance policy; or</td>
</tr>
<tr>
<td>▪ For a standalone policy: 20% of the insurable value of the Mortgaged</td>
</tr>
<tr>
<td>Property.</td>
</tr>
<tr>
<td>For example:</td>
</tr>
<tr>
<td>The Property has an insurable value of $10 million with a Total Insurable</td>
</tr>
<tr>
<td>Value of $50 million on the policy. The maximum deductible is 20% of $10</td>
</tr>
<tr>
<td>million, or $2 million.</td>
</tr>
<tr>
<td>- Business income, including rental value – maximum of two weeks or</td>
</tr>
<tr>
<td>equivalent.</td>
</tr>
</tbody>
</table>
## Section 322.04. Liability Insurance

This Section covers the guidelines and requirements for liability insurance. Fannie Mae requires that each Property and Borrower be covered by liability insurance for the life of the Mortgage Loan.

If the liability insurance carrier cannot or will not provide notice of cancellation to the Lender for general liability, professional liability and excess/umbrella liability coverages, the Lender is required to advise the Borrower, in writing, that the Borrower must inform the Lender of any notice of policy cancellation for any reason within 24 hours of receipt of such notice of cancellation.

### A. Commercial General Liability Minimum Requirements

<table>
<thead>
<tr>
<th>What is Required?</th>
<th>Commercial General Liability Insurance for bodily injury, property damage and personal injury.</th>
</tr>
</thead>
<tbody>
<tr>
<td>When Applicable</td>
<td>All Asset Classes</td>
</tr>
</tbody>
</table>
| Minimum Amount of Coverage | 1. $1 million per occurrence/$2 million minimum general aggregate limit per location plus  
2. Minimum Umbrella/Excess liability insurance (above the primary coverage) as follows:  
   - Up through 4 stories $2 million  
   - 5 –10 stories $5 million  
   - 11 - 20 stories $10 million  
   - Greater than 20 stories $25 million  

- The minimum required coverage limit may be satisfied by adding any combination of primary and umbrella/excess limits so that the sum of both equals the sum of the limits required in (1) plus (2) above.  
- For an Umbrella/Excess liability policy covering multiple locations, the minimum coverage limit may be satisfied when the limit meets the requirement for the location with the most stories.  
- For Seniors Properties, if General Liability is combined with Professional Liability, policies written on a “claims made” basis are acceptable with the following conditions:  
  - The Borrower must notify and seek the Lender’s approval upon the event of any the following:  
    - the Borrower changes insurance carriers;  
    - the “retroactive date” changes for any claims made policy;  
    - the insurance coverage returns to an “occurrence” policy from a “claims made” policy; or |
If any of the above changes are approved, the Borrower must purchase “Extended Reporting Period” coverage ("tail coverage") for the “claims made” policy in a dollar amount and for the applicable time period assuring that there is no potential lapse in coverage.

**Maximum Deductible/ “Self Insured Retention” ("SIR")**

<table>
<thead>
<tr>
<th>General Liability:</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ $15,000 per occurrence for a Property securing the Mortgage Loan that is on a policy with less than $5 million in total insurable values.</td>
</tr>
<tr>
<td>▪ $25,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $5 million and less than $50 million in total insurable values.</td>
</tr>
<tr>
<td>▪ $100,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $50 million and less than $100 million in total insurable values.</td>
</tr>
<tr>
<td>▪ $250,000 per occurrence for a Property securing the Mortgage Loan that is on a policy having greater than or equal to $100 million in total insurable values.</td>
</tr>
</tbody>
</table>

**Excess/Umbrella Liability:**

- $25,000 deductible/self-insured retention

---

**B. Professional Liability Minimum Requirements**

<table>
<thead>
<tr>
<th>What is Required</th>
<th>Professional Liability Insurance which covers professional errors and omissions, medical malpractice and all types of abuse. <strong>Fannie Mae must not be named an additional insured on Professional Liability Insurance policies.</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>When Applicable</td>
<td>Assisted living facilities or other Seniors Housing Properties where any level of healthcare is provided.</td>
</tr>
<tr>
<td>Minimum Amount of Coverage</td>
<td>1. $1 million per occurrence/$2 million minimum general aggregate limit per location plus 2. Minimum umbrella/excess liability insurance (above the primary) as follows:</td>
</tr>
<tr>
<td></td>
<td>- Up to 100 licensed beds $2 million</td>
</tr>
<tr>
<td></td>
<td>- 101 to 500 licensed beds $5 million</td>
</tr>
<tr>
<td></td>
<td>- 501 to 1000 licensed beds $10 million</td>
</tr>
<tr>
<td></td>
<td>- Over 1000 licensed beds $25 million</td>
</tr>
</tbody>
</table>
The minimum required coverage limit may be satisfied by adding any combination of primary and umbrella/excess limits so that the sum of both equals the sum of the limits required in (1) plus (2) above.

For an Umbrella/Excess liability policy covering multiple locations, the minimum required coverage may be satisfied when that limit meets the requirement for the location with the most licensed beds.

When there is a combination of independent and assisted living beds, only the number of assisted living beds should be used to determine the limit required.

When General Liability and Professional Liability are combined in an Umbrella policy and cover multiple locations, the higher limit of the two required coverages is the minimum acceptable (with the umbrella coverage being in addition to the applicable underlying coverages for General Liability and Professional Liability).

For example, if the Mortgaged Property is an 11-story, 450 bed assisted living facility:
- 11 stories require $10 million of Umbrella coverage.
- 450 licensed beds require $5 million of Umbrella coverage.
- If the coverages are combined, an Umbrella policy of $10 million is required.

<table>
<thead>
<tr>
<th>Maximum Deductible/”Self Insured Retention” (“SIR”)</th>
<th>Same as General Liability and Excess Liability</th>
</tr>
</thead>
</table>

Captive Insurance

Risk Retention Groups

Fannie Mae will accept Captive Insurance or Risk Retention Groups for Professional Liability insurance and General Liability insurance, when combined with Professional Liability insurance, for Seniors Housing Properties only. The Captive or Risk Retention Group must have a Demotech or A.M. Best Financial Stability Rating as outlined below, or must be approved by Fannie Mae. For additional information, including the list of documents required for submission to Fannie Mae if a rating is not available, see below.

C. Risk Retention Groups and Captive Insurances

Note: The following applies only to Seniors Housing Properties and pertains to Borrower’s General and/or Professional liability insurance provider(s) only.

Insurance coverage provided by Risk Retention Groups is not permitted unless the Risk Retention Group has obtained a rating of A-/VI from A.M. Best or A from Demotech. When an A.M. Best or Demotech rating is not available, Fannie Mae will accept an equivalent rating from Moody’s, Standard & Poor’s or Fitch on a case-by-case basis. Acceptability of the rating will be determined by Fannie Mae. If no rating is available, the Risk Retention Group must be approved by Fannie Mae.
Captive Insurance and similar arrangements are generally not acceptable because they have lower capitalization requirements than traditional insurance companies and they usually are not rated by recognized rating agencies. However, due to coverage availability and prohibitive pricing in the standard and surplus lines markets, Fannie Mae will accept captive insurance for Professional Liability Insurance and General Liability Insurance when combined with Professional Liability Insurance for Seniors Housing Properties, if the captive has a Demotech A rating or A.M. Best A-VI rating, or the captive is approved by Fannie Mae. To be approved by Fannie Mae, the Lender must first recommend acceptance and approval of the captive insurance and then provide the following documents to Fannie Mae via DUS Gateway for new Mortgage Loans, and the MAMP for Portfolio Mortgage Loans:

1. Detailed updated accrual runs;
2. Updated loss history (minimum 5 years/brief summary and detailed list);
3. Current updated audited financial statements from the captive and parent company for the last 2 years;
   - For the captive, audited financials should be on a stand-alone basis (if audited are not available, then unaudited financials are acceptable).
   - Parent company’s financials should be on a consolidated basis.
4. Financials, audited or unaudited, for the most recent quarter for each entity;
5. Description of any changes from previous years with applicable updated resumes of all officers;
6. Description of any reinsurance and/or fronting company, if applicable;
7. Description of internal claims management procedures;
8. Status of market update;
9. Description of funding sources;
10. Business Plan: projected volume over the next year;
11. Actuarial Memorandum / Reserve Analysis as provided by the captive,
12. State Insurance Examination Report, if possible, or
   - Date of examination
   - Description of any adverse findings
   - Steps taken to remediate; and
13. Current exposure to the captive insurance or the Risk Retention Group - UPB on loans made to date.

The Lender must perform a complete analysis and make a recommendation of the captive’s acceptability. All waivers associated with the captive must also be submitted.

The Lender must obtain an annual, independent review of the captive insurance. This annual independent review shall be performed by an individual firm which is (i) familiar with captive insurance structures, captive domiciles and captive operations, including experience in the analysis of both actuarial studies and audited financial statements of captives, and (ii) unrelated to and unaffiliated with the Lender, the Borrower, or any sponsor or Key Principal of the Borrower or any captive entity of any of their agents.

The review and report to Fannie Mae must include, at a minimum:

- An analysis of the captive’s annual independent actuarial study, even if one is not required by the captive domicile;
- Actuarial Memorandum / Reserve Analysis as provided by the captive;
- A review of the annual independent audited financial statements for the captive, and
- A conclusion regarding the operation and financial viability of the captive.

D. Workers’ Compensation

<table>
<thead>
<tr>
<th>What is Required</th>
<th>Workers’ Compensation and Employer’s Liability insurance (including Terrorism) as required by applicable state law.</th>
</tr>
</thead>
<tbody>
<tr>
<td>When Applicable</td>
<td>Where direct employees of the Borrower are required to be covered by Workers’ Compensation laws of the state where the Property is located.</td>
</tr>
</tbody>
</table>
| Minimum Amount of Coverage | ▪ Statutory limits for injured employees; and  
▪ The greater of:  
  • Employer’s Liability limits of $1 million per occurrence for bodily injury, $1 million per occurrence for employee disease, and $1 million employee disease aggregate, or  
  • any applicable underlying limit required by the insurer for excess liability converge. |

E. Directors’ and Officers’ Liability Minimum Requirements

<table>
<thead>
<tr>
<th>What is Required</th>
<th>Directors’ and Officers’ Liability Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>When Applicable</td>
<td>Cooperative Organizations only</td>
</tr>
</tbody>
</table>
Minimum Amount of Coverage | Minimum $1 million per occurrence
---|---
Maximum Deductible | Same as required for Commercial General Liability insurance.

**F. Commercial Auto Liability Minimum Requirements**

<table>
<thead>
<tr>
<th>What is Required</th>
<th>Commercial Auto Liability insurance that covers owned, non-owned, hired and leased vehicles (whichever shall apply), including personal injury protection as required by state statute.</th>
</tr>
</thead>
<tbody>
<tr>
<td>When Applicable</td>
<td>If the Borrower owns or hires any vehicles in its name, or if any individuals use their own vehicles for any type of business on behalf of the Borrower or the Property.</td>
</tr>
</tbody>
</table>
| Minimum Amount of Coverage | • The greater of:  
  • limits of $1 million per occurrence; or  
  • any applicable underlying limit required by the insurer for excess/umbrella liability converge. |

**Section 322.05. Small Loans**

All insurance requirements provided in Part IIIA, Chapter 3, are applicable to Small Mortgage Loans, except as provided below.

**A. Permanent Evidence**

The following are acceptable evidence of insurance coverage for Small Loans.

- The originals or duplicate copies of current insurance policies must be received, reviewed and placed in the Lender’s Servicing File within 90 days after the delivery of the Mortgage Loan or the date of the insurance policy renewal. Except for a National Flood Insurance Program (NFIP) policy, only the complete insurance policy is sufficient evidence of coverage. Insurance policy declarations pages, single policy endorsements, insurance binders and certificates of insurance are not an acceptable form of permanent insurance coverage. The Policy Declaration page of a NFIP policy is acceptable evidence of flood insurance coverage.

- A signed and dated statement from Borrower’s insurance agent or broker confirming the policy has been reviewed and contains the following information:

  □ Named insured listed as Fannie Mae Borrower.
  □ Mortgagee Clause acceptable to Fannie Mae.
  □ Insurance Carrier(s) have compliant AM Best Rating.
  □ Policy Term is 12 months.
□ Cancellation Clause per Fannie Mae requirements.
□ Special Coverage Form applies.
□ No Coinsurance or confirmation that an Agreed Value Endorsement is attached to the policy if there is Coinsurance.
□ Limits of insurance for all required coverages including any sub-limits or other restrictions, i.e. catastrophic limits (Wind, Flood, Earthquake, etc.) that may differ from the standard property coverage amount.
□ A Statement of Values where applicable.
□ Coverage is subject to Replacement Cost valuation.

- Mortgage Bankers Association (MBA) Evidence of Insurance – Commercial Property Form. In states where the MBA form is filed and approved, the appropriate state form must be used, otherwise the most recently revised MBA form should be used.

B. Umbrella/Excess Liability Minimum Requirements

$1 Million Minimum umbrella/excess liability insurance is required when the Property has 4 stories or less and the Mortgage Loan amount is less than or equal to $3 million.

C. Terrorism Insurance

Terrorism insurance coverage is not required for Small Loans.

Section 323. Title Insurance (04/13/15)

Each Mortgage Loan must be covered by an acceptable title insurance policy meeting the following requirements:

Section 323.01. Title Insurance Company

The title policy must be issued by a title insurance company that:

- is duly authorized to issue title policies in the jurisdiction where the Property is located; and
- has an acceptable rating with adequate reserves.

Section 323.02. Policy Form

Subject to satisfaction of other requirements set forth in this Section, Fannie Mae will accept the standard 2006 or the 1992 ALTA forms of loan title insurance policies. In those states
in which ALTA forms of coverage are not approved for use by the applicable state insurance board or commission, the Lender must obtain the closest equivalent alternative coverage.

**Section 323.03. Electronic Policies**

Electronically issued title insurance policies are acceptable provided that the title insurance coverage is enforceable against the insurer notwithstanding electronic issuance and/or electronic signatures.

**Section 323.04. Insured**

The title policy must name the Lender as the insured and, upon assignment of the Mortgage Loan to Fannie Mae, must insure Fannie Mae (either by reference to the Lender’s “successors and assigns, as their interests may appear” or by direct reference to Fannie Mae).

**Section 323.05. Effective Date**

If a 1992 ALTA title insurance policy form is issued, the effective date of the title insurance policy must be no earlier than the date (and time, if the effective date includes time) of recording of the Security Instrument. If a 2006 ALTA title insurance policy form is issued, the effective date of the title insurance policy must be no earlier than the date of the funding of the Mortgage Loan.

**Section 323.06. Amount of Title Insurance Policy**

The amount of the title insurance policy must be not less than the original principal amount of the Mortgage Loan

**Section 323.07. Mortgage Loan Description**

The title insurance policy must insure the same property description as is contained in the Security Instrument.

**Section 323.08. Standard Exceptions**

Standard exceptions (such as for matters not shown on public records) must be deleted. The title insurance policy may contain an exception for tenants in possession under residential leases.

**Section 323.09. Survey Exception**

The standard survey exception, if any, to the title insurance policy must be deleted. Exceptions to matters shown on a recorded map or plat must be specifically described and are subject to the other requirements of this Section.
Section 323.10. Exception for Taxes, Assessments, or Other Lienable Items

If the title insurance policy includes any exception for taxes, assessments, or other Lienable items, the title insurance policy must expressly insure that such taxes, assessments, or other Lienable items are not yet due and payable or not yet delinquent. In the event that taxes will become delinquent within 60 days after closing of the Mortgage Loan, then the Lender must require payment of taxes at closing.

Section 323.11. Financing Statements

Any financing statements filed or recorded in the office in which the Security Instrument must be recorded and showing the Lender as the secured party and related assignments thereof to Fannie Mae must be shown as an informational note on Schedule B, Part II, and must not be listed as exceptions on Schedule B, Part I. Other financing statements (such as those filed or recorded with the state or local office(s) for UCC filings) may be shown as an informational note on Schedule B, Part II, but must not be listed as exceptions on Schedule B, Part I.

Section 323.12. Endorsements

A. Generally

Lender must obtain appropriate ALTA, CLTA or equivalent endorsements, including, but not limited to, the endorsement discussed herein. For each endorsement, the Lender must assure that the endorsement is adequately incorporated into or cross referenced by the related “base” policy.

B. Required Endorsements

In jurisdictions where a required ALTA form of endorsement is not available, a substantially equivalent form of endorsement or affirmative coverage included in Schedule B of the title policy is acceptable. The following endorsements are required:

1. Environmental Protection Lien Endorsement

Each title insurance policy must include an acceptable Environmental Protection Lien Endorsement. ALTA Form 8.1 (or the previously issued ALTA Form 8 or equivalent endorsement) is acceptable. Part (b) of ALTA Form 8.1 (or the previously issued ALTA Form 8 or equivalent endorsement) may only take exception for a statute under which environmental protection Liens could take priority over the Mortgage Loan. The Lender is liable to Fannie Mae for any loss sustained by the inclusion of a statute that is not a “super lien” or does not take priority over the Mortgage Loan. Super lien statutes
acceptable as exceptions for inclusion in the ALTA Form 8.1 endorsement are listed in Acceptable Super Lien Statutes (Form 4666).

2. Comprehensive Endorsement

A Restrictions, Encroachments, Minerals Endorsement (ALTA Form 9.3-06, Form 9.3 or Form 9) or an equivalent comprehensive endorsement must be included in the title insurance policy if any Lien, encumbrance, condition, restriction, or easement is listed in the title insurance policy. If an ALTA Form 9 endorsement (or an equivalent comprehensive endorsement) has been issued, but any Schedule B, Part I exception(s) continue to be excluded from the coverage provided through that endorsement for (i) encroachments onto the Property or onto easements or rights of way excepted in Schedule B of the title insurance policy, (ii) encroachments by the Improvements on the Property onto adjoining land, (iii) violations of existing covenants, conditions or restrictions, or (iv) other adverse circumstances, the Lender must determine whether the exception(s) would be acceptable to a reasonable, prudent Lender and to Fannie Mae.

3. Mortgage Tax Endorsement

If available in the state where the Property is located, a Mortgage Tax Endorsement (ALTA Form 38.06) or an equivalent endorsement or other affirmative coverage must be included in the title insurance policy if the Security Instrument securing the Mortgage Loan is an amended and restated security instrument, such as a New York Consolidation, Extension, and Modification Agreement (Form 6025.NY.CEMA), or a Florida Consolidated, Amended, and Restated Mortgage (Form 6025.FL.AR).

4. Other Endorsements

Where appropriate because of the type of Property, Lender must assure that the title insurance policy includes: Condominium Endorsement; PUD Endorsement; Variable Rate Endorsement; Leasehold Mortgage Endorsement (or Leasehold Mortgagee Policy is also acceptable); Location Endorsement; Unlocated Easements; Contiguity-Multiple Parcel.


The Lender must examine and keep in its Servicing File copies of all easements, encumbrances, or other restrictions shown as exceptions in the title insurance policy. Upon request, legible copies must be delivered to Fannie Mae.
Section 324. Security Interests in Personal Property (06/03/13)

Section 324.01. UCC Financing Statements

The Security Instrument must create a Lien on the Personal Property associated with the Property and owned by the owner of the Personal Property. This Lien is governed by the Uniform Commercial Code (the "UCC") as it is in effect in the state where the Property is located. The Lender must assure that it has a perfected first priority Lien on all Personal Property.

Section 324.02. Creating and Perfecting the Security Interest

Article 9 of the Uniform Commercial Code covers the perfection of a security interest in Personal Property. All UCC-1 financing statements must be filed in a manner which complies with the requirements of Article 9 of the Uniform Commercial Code. Any such security interest must be assigned by the Lender to Fannie Mae.

The basic issues are summarized in the following table.

<table>
<thead>
<tr>
<th>Task</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing that the Borrower has good title to the Personal Property.</td>
<td>Obtain Borrower representation of ownership contained in the Underwriting Certification (Form 4667).</td>
</tr>
<tr>
<td>Making certain that no other party has a security interest in the Personal Property.</td>
<td>Conduct UCC financing statement, tax Lien and judgments searches on all parties determined by the Lender to be relevant to the transaction.</td>
</tr>
<tr>
<td>Granting a security interest in the Personal Property to the Lender.</td>
<td>The Security Instrument must contain a granting clause that creates the security interest.</td>
</tr>
<tr>
<td>Perfecting the security interest granted to the Lender.</td>
<td>Requires the filing of UCC-1 financing statement in the appropriate filing office(s) with a description that matches the security interest granted by the Borrower in the Security Instrument.</td>
</tr>
<tr>
<td>Assigning the security interest from the Lender to Fannie Mae.</td>
<td>Requires the filing of UCC-3 financing statement in the same filing office(s) as the UCC-1 was filed.</td>
</tr>
</tbody>
</table>

Section 325. Survey (08/28/17)

Section 325.01. Decision to Obtain a Survey

The Lender must either:
obtain an acceptable as-built survey of the Property meeting the requirements of Section 325.02 of this Chapter; or

make the determination not to require a survey pursuant to Section 325.03 of this Chapter.

Section 325.02. Survey Requirements

An acceptable as-built survey prepared in connection with the origination of the Mortgage Loan must:

- meet the requirements of an ALTA/NSPS Land Title Survey, made in accordance with the 2016 Minimum Standard Detail Requirements for ALTA/NSPS Land Title Surveys as adopted by American Land Title Association and National Society of Professional Surveyors, and should include, at a minimum, the following Table A items: 1, 2, 3, 4, 6(a) and (b), 7(a), 8, 9, 10(a), 13, 16, and 19;

- include the certification required in the 2016 Minimum Standard Detail Requirements for ALTA/NSPS Land Title Surveys as adopted by the American Land Title Association and the National Society of Professional Surveyors; and

- be dated no more than 360 days prior to the date the Security Instrument is recorded.

Notwithstanding the above, the survey may omit the following items from Table A:

- Item 1 for a Property with a lot and block legal description; and/or

- Item 10(a), if there are no party walls.

The Lender may rely on an existing survey not prepared in connection with the origination of the Mortgage Loan if:

- the Lender obtains an affidavit from the Borrower attesting that there have been no changes to the Property since the date of the proffered survey; and

- the existing survey is sufficient for the title insurance company to delete the standard survey exception from the title insurance policy.

If any (i) encroachments over boundary lines, setback lines or easements, (ii) easements (including failure to obtain storm and sanitary sewer easements or other necessary appurtenant easements), or (iii) other adverse circumstances are revealed by the survey, the Lender must determine whether the Mortgage Loan nevertheless would be acceptable to a reasonable, prudent lender.

Section 325.03 Determination Not to Obtain a Survey

The Lender’s decision not to obtain a survey must be documented in its Transaction Approval Memo and must be based on the following:
any Improvements on the Property that either encroach or might encroach upon an easement as disclosed by the title insurance policy, must be covered by an ALTA 28 endorsement (Encroachments – Boundaries and Easements), or the equivalent;

the title insurance policy must not raise any exception on the title policy for any facts that might be disclosed by a survey nor may it raise any exceptions, limitations or exclusions to the title policy due to the absence of a survey; and

a visual inspection by the Lender or the Appraisal must not have disclosed any site condition (e.g., a visible easement, right-of-way, or encroachment) that is not disclosed and insured under the title policy.

If the Lender decides not to obtain a survey, the Lender must still determine whether any of the Improvements on the Property are located in a Special Flood Hazard Area (“SFHA”) Zone A or Zone V as defined by the Federal Emergency Management Agency (“FEMA”), as required by Section 322 of this Guide, and document its determination in the Transaction Approval Memo.
Part IIIA – Base Underwriting Requirements

Chapter 4 – The Borrower, Key Principals, and Principals

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Chapter 4 – The Borrower, Key Principals, and Principals

Section 401. General (07/15/16)

The Lender must perform an overall risk assessment of the Borrower, Key Principals and Principals, taking into consideration the specifics of the transaction. In all events, the Lender must obtain and analyze any information that it determines is necessary to complete an appropriate credit review, including:

- organizational structure;
- multifamily business experience and qualifications;
- general credit history; and
- current and prospective financial condition.

The financial strength, experience, qualifications, character and credit history of the Borrower, Key Principals and Principals, as determined by the analysis must be commensurate with the size, complexity, structure and risks of the transaction.

Section 402. Borrower Organizational Structure (06/10/15)

Section 402.01. Single Asset Entity

Except as provided below, the only eligible Borrower structure is a domestic single-asset entity Borrower. The Lender’s analysis of the Borrower and the Borrower's organizational documents must include a determination of whether:

- the acquisition of any additional real property, personal property or assets other than the Property is permitted;
- the operation or participation in any business other than the management and operation of the Property is permitted;
- the Borrower’s assets or funds are commingled with those of any other Person and, if so, whether such assets or funds can be segregated and identified;
- the Borrower’s financial statements, accounting records and other organizational documents are maintained with those of any other Person; or
- the Borrower has assumed, guaranteed or obligated itself for the liabilities of any other Person (except in connection with the Mortgage Loan or the endorsement of negotiable instruments in the ordinary course of business).

If a Borrower owns more than a single asset, the Borrower may still qualify as a single-asset entity, so long as the Borrower:
provides the Lender with a current financial statement for each real property owned;

- does not have any existing debt secured by a Lien on any of the Borrower’s real property, other than a Mortgage Loan purchased by Fannie Mae;

- does not have any of its direct or indirect equity interest subject to any Mezzanine Financing; and

- is prohibited by the Loan Documents from (i) acquiring any additional debt; (ii) increasing any existing debt; or (iii) acquiring any additional real property.

The Borrower may be ultimately owned by foreign persons or entities, so long as at least 1 United States domiciled tier owning the Borrower has been established.

Section 402.02. Co-Tenant Borrowers

A. Eligibility

A Co-Tenant Borrower may be an eligible Borrower if:

- no more than 5 co-tenants comprise the Co-Tenant Borrower;

- each co-tenant jointly and severally executes the Loan Documents;

- no co-tenant is an individual; and

- each co-tenant is a single asset entity satisfying the requirements of Section 402.01 of this Chapter.

B. Tenancy-in-Common Agreement

A validly executed and legally enforceable tenancy-in-common agreement must be in place or entered into by all co-tenants at the time of the Mortgage Loan closing, and the Lender must verify that such tenancy-in-common agreement provides, at a minimum:

- that each co-tenant is bound by the terms of the tenancy-in-common agreement;

- that a single co-tenant (or the Key Principal of such co-tenant) has the authority to manage the day to day business and affairs of the Property (the “Representative Co-Tenant Borrower”) (or the Lender must verify that, in lieu of a named Representative Co-Tenant Borrower, a property manager with the authority to manage the day to day business and affairs of the Property has been validly appointed);

- that the Representative Co-Tenant Borrower has the power to deal with the Lender on matters relating to the operation and maintenance of the Property either through powers granted to the Representative Co-Tenant Borrower in the tenancy-in-common agreement or by an irrevocable power-of-attorney from the other Co-Tenant Borrowers (or the Lender must verify that a property manager with the authority to deal with the Lender on such matters has been validly appointed);
that each Co-Tenant Borrower (or the Key Principal of each such Co-Tenant Borrower) has buy-out rights as to any other co-tenant (and the Lender must verify that such Co-Tenant Borrowers are financially able to effect such a buy-out);

- the name, address, telephone number and percentage of ownership interests of each Co-Tenant Borrower, and a requirement that (i) each Co-Tenant Borrower agrees to promptly notify all other Co-Tenant Borrowers and any mortgage lender of any change in address or telephone numbers, and (ii) a single Key Principal of the Representative Co-Tenant Borrower has been named as the party to receive all notices or other communication from any mortgage lender on behalf of all Co-Tenant Borrowers;

- that all payments under any mortgage loan secured by a Lien on the Property has priority over distributions to the Co-Tenant Borrowers and that such distributions to Co-Tenant Borrowers are subordinate and subject to the terms and conditions of any such mortgage loan; and

- that each Co-Tenant Borrower has waived (i) its right to residency in the Property, and (ii) any Lien rights against the Property and all other Co-Tenant Borrowers.

C. Key Principal Execution of Guaranty

At least 1 Key Principal must be named for each Co-Tenant Borrower and each such Key Principal must execute a Non-Recourse Guaranty or a Payment Guaranty, as applicable, if a Guaranty is required for the Mortgage Loan.

Section 402.03. Fund Borrowers

For any Borrower that relies on equity investments from fund investors for its continued existence, the Lender’s analysis of such Borrower must include:

- the experience and performance history of the fund manager in connection with managing other similar funds;
- the fund’s ability to raise equity from financially substantial investors;
- the performance of the fund;
- the leverage level of the fund;
- the net worth and liquidity of the fund; and
- the quality of the Property and market where the Property is located.
Section 403. Key Principals and Principals (07/15/16)

Section 403.01. General

For each Mortgage Loan, the Lender must identify all Key Principals and Principals of the Borrower. At least 1 Key Principal must have an ownership interest in the Borrower. Any Key Principal that provides a Guaranty of the Mortgage Loan must be a non-foreign person or entity.

Section 403.02. Entity Key Principals

Entity Key Principals are permitted. An acceptable entity Key Principal must have an established track record of successful business performance and sufficient financial strength. Any Key Principal entity assuming liability under a Guaranty must be:

- an existing entity (e.g., a corporation, limited liability company, limited liability partnership, or other acceptable structure) that is not newly formed;
- a well-capitalized, stable, on-going business concern that would be expected to:
  - continue to remain financially healthy;
  - be able to support the Property; and
- meet all Key Principal requirements and obligations under the Guaranty over the term of the Mortgage Loan, with an expectation that the entity’s assets and net worth should be significantly in excess of what would be minimally acceptable for an individual Key Principal; and
- the type of business that, except for assets specifically pledged or committed to other liabilities, would make it unlikely that other assets would be siphoned off for use by other entities, transferred, sold, or otherwise disposed of in order to avoid meeting Key Principal obligations.

Section 403.03. Fund Key Principals

For any Fund Key Principal or Fund Principal, the Lender must review the relevant organizational documents and private placement memorandum, if applicable, to ascertain:

- the entity’s expiration date;
- whether any extension to the entity’s existence is provided and, if any such extension provisions exist, the conditions to approving the extension; and
- the process for winding up the business affairs of the entity, including whether or not the Fund is organized in a state that requires the orderly dissolution of investment funds, such as Delaware or Illinois.
The Lender must document and justify its credit analysis of the Fund Key Principal or Fund Principal in the Lender’s Transaction Approval Memo. The Lender’s analysis must include the entity’s:

- experience and performance history managing other similar funds;
- ability to raise equity from financially substantial investors;
- performance;
- leverage;
- net worth; and
- liquidity.

**Section 404. Financial Statements (09/16/13)**

The Lender must obtain signed financial statements that are dated less than 12 months prior to the Commitment Date from all parties relevant to the transaction. If the signed financial statements are more than 12 months old, a certification that there has been no material adverse change to the financial condition reflected in such statements, signed by the relevant party and dated within 30 days prior to loan application must be obtained. Financial statements more than 24 months old are not acceptable. All financial statements should contain:

- a schedule of real estate owned by the party providing the financial statement;
- all other assets, including notes receivable from related entities, and an estimate of the market value of each asset and the basis for calculating value estimates;
- all liabilities and contingent liabilities, including debts under lines or letters of credit, personal guaranties, unmet obligations to partnerships or other entities and other obligations in the future (the amount and timing of all such obligations must be specified or described); and
- any other factors that may materially impact the Borrower's or Key Principal's financial position immediately or during the term of the Mortgage Loan (including any known threat of potential lawsuits that may arise from such parties’ business operations).

If the Lender fails or is unable to obtain any of the above information, the Lender must document the reasons for such failure or inability and justify its credit analysis in its Transaction Approval Memo.

The financial statements submitted by Principals need not contain every item listed above, as long as the Lender is satisfied that the financial statement adequately reflects the Principal’s solvency.
Section 405.  Credit Reports, FICO Scoring, and Credit Report Review for Mortgage Loans $3,000,000 or Less (11/04/13)

For any Mortgage Loan having an original principal amount of $3,000,000 or less, the following requirements apply for all individual Borrowers (if a waiver of the single asset entity requirement has been approved) and all individual Key Principals and Principals.

Section 405.01.  Credit Report

Credit reports are required for all individual Borrowers and all individual Key Principals and Principals. Credit reports must be obtained from at least 2 of the following credit information services:

- Equifax;
- Experian; or
- TransUnion.

Section 405.02.  FICO Scoring

All individual Borrowers, Key Principals, and Principals must achieve the Minimum FICO Requirement. For determining compliance with the Minimum FICO Requirement, the FICO score for an individual Borrower, Key Principal or Principal must be determined as follows:

- if credit reports are obtained from 2 of the 3 approved credit information services, then the lower score must be utilized, or
- if credit reports are obtained from all 3 credit information services, then the middle score must be utilized.

If a Borrower, Key Principal or Principal is married to another Borrower, Key Principal or Principal, then compliance with the Minimum FICO Requirement must be determined by using the lower FICO score of the 2 married individuals.

If any Small Mortgage Loan has multiple individual Borrowers or if any Mortgage Loan has multiple individual Key Principals or Principals, the Lender is required to use the average of their respective FICO scores to determine compliance with the Minimum FICO Requirement.

Section 405.03.  Reviewing the Credit Report

The Lender must conduct a thorough review and analysis of the credit report for each individual Borrower and each individual Key Principal. Such review and analysis must assess whether there is reported:

- any mortgage late payments occurring within the previous 36 months;
any excessive revolving or installment late payments occurring within the previous 12 months;

any credit card or other unsecured debt balances deemed excessive by the Lender;

any tax liens that have been filed or reported within the previous 5 years;

any discharged bankruptcies or mortgage foreclosures occurring within the previous 10 years; or

any outstanding judgments or collections that exceed $5,000.

Without regard to whether the individual Borrower or any individual Key Principal or Principal has met the Minimum FICO Requirement, if any of the above matters are reported or there is other derogatory credit history reported in the credit report, the Borrower must provide satisfactory explanations regarding such matters and the Lender must validate such explanations and determine that future delinquencies are unlikely. Any such determination must be documented in the Lender’s Transaction Approval Memo.

Section 406. Fraudulent Conveyance (09/16/13)

The Lender must not make any Mortgage Loan if it has reason to believe there is an actual intent by the Borrower or its Key Principals or Principals to delay, hinder, or defraud creditors.

To show that the Mortgage Loan was made in good faith, a careful review of the facts is needed to provide a defense to a fraudulent conveyance or fraudulent transfer type of claim. The Lender must obtain the appropriate Multifamily Underwriting Certificate. The Multifamily Underwriting Certificate must be reviewed as part of the Lender's credit review and held in the Lender’s Servicing File.

Section 407. Multifamily Underwriting Certificate (09/16/13)

The Borrower and each Key Principal must execute and provide to the Lender the appropriate Multifamily Underwriting Certificate, that certifies the accuracy and completeness of the rent roll, the operating statement, all financial statements and schedules of real estate owned, as applicable (copies of which are to be attached to the Multifamily Underwriting Certificate), and such other information as is included in the Multifamily Underwriting Certificate. Each Multifamily Underwriting Certificate must:

- be signed and certified as true, correct, and complete,
- be dated not more than 90 days prior to the date the Lender requests a Commitment from Fannie Mae, and
- be updated with either a new Multifamily Underwriting Certificate or, if the 90-day period is exceeded, a certification that there has been no material adverse change to the financial condition reflected in such statements.
Section 408. Applicant Experience Check of Borrower, Key Principals, and Principals (the ACheck™) (07/15/16)

Section 408.01. Requirement

For both initial applications and any Transfer/Assumption, the Lender is required to perform an Applicant Experience Check (“ACheck”) of the Borrower and each Key Principal and Principal of the Borrower. If the Key Principal is an entity, an ACheck of any person that owns or controls the Key Principal is required.

Section 408.02. Where to Find the Multifamily Applicant Experience Check Application

The ACheck application is located at https://www.fanniemae.com/multifamily/acheck.

Section 408.03. When to Use Multifamily Applicant Experience Check Application

The Lender must perform the ACheck as soon as an application request is received and the Lender has the necessary tax identification numbers and/or social security numbers. If all parties have not been identified at this stage in the loan application process, the Lender must perform another ACheck for all Key Principals and Principals of the Borrower as soon as they are identified.

The Lender must repeat the ACheck if over 90 days will pass between the initial ACheck request and Commitment in the case of an application.

Section 408.04. Multifamily Applicant Experience Check Results

The Multifamily ACheck application will provide either a “Continue Processing” or “Do Not Process” electronic response instantaneously.

A. “Continue Processing” Response

A response stating “you may continue processing a loan application for a Fannie Mae loan involving this applicant” or words of similar import, means that the Lender may proceed with the loan application. A “Continue Processing” response does not mean that the Borrower, Key Principal, or Principal is approved, as the Lender is still required to complete all of the Mortgage Loan credit underwriting required in the Guide.
B. “Do Not Process” Response

A response stating “do not continue processing an application for a Fannie Mae loan that involves this applicant” or words of similar import, means the Lender may not proceed with an application involving the Borrower, Key Principal, or Principal for which a “Do Not Process” response was given for a Mortgage Loan intended to be delivered to Fannie Mae. The Lender may not proceed with a loan application by omitting as an identified Key Principal or Principal any Key Principal or Principal for which a “Do Not Process” response was given. A “Do Not Process” response indicates only that the Lender must have direct communication with Fannie Mae. The “Do Not Process” response must not be used by the Lender as the sole reason for rejection or denial of credit in the case of any transactions not involving Fannie Mae. Any Lender that improperly uses any information obtained or compiled from the ACheck application, including using this information as the sole grounds for rejection of the prospective Borrower, Key Principal, or Principal in a transaction not involving Fannie Mae, will be deemed to have agreed to indemnify Fannie Mae against any and all damages, losses and costs, including attorneys’ fees, which may be incurred by Fannie Mae as a result of such improper use.

The Lender will not be provided any information as to why a particular Borrower, Key Principal, or Principal received a “Do Not Process” response. The Lender must follow the instructions provided by the ACheck application, and must submit a waiver request to Fannie Mae before proceeding to underwrite the Mortgage Loan.

Section 408.05. Confidentiality

The ACheck application, the data it contains, and the results it produces are Fannie Mae Proprietary Information and are subject to the Confidentiality restrictions of the Lender Contract and the Guide. The Lender must not use the ACheck application for any purpose other than compliance with this Section 408 and the evaluation of the Borrower, Key Principal, or Principals of a Mortgage Loan registered with Fannie Mae. The Lender is responsible for establishing procedures to ensure that the ACheck responses obtained for all Borrowers, Key Principals, and Principals remain confidential.

Section 408.06. Maintenance of Applicant Experience Check Results

The Lender must print dated copies of its ACheck inquiries and responses for the Mortgage Loan and maintain such copies in the Lender's files.
Section 409. Compliance with Office of Foreign Assets Control, Bank Secrecy Act, and FHFA Suspended Counterparty Program (02/02/15)

Section 409.01. Office of Foreign Assets Control

All Lenders must establish and maintain an effective U.S. Treasury Department Office of Foreign Assets Control (“OFAC”) compliance program.

Fannie Mae will not (i) purchase any Mortgage Loan, or (ii) approve any Transfer/Assumption of any Mortgage Loan, where the Borrower (or the substitute Borrower in the case of a Transfer/Assumption), or any Key Principal or Principal of such Borrower or substitute Borrower, is a “specially designated national and blocked person” on the Specially Designated Nationals List maintained by OFAC. It is the Lender’s responsibility to determine and verify that each Borrower, Key Principal, and Principal (including any proposed substitute Borrower, Key Principal or Principal in connection with a Transfer/Assumption of the Mortgage Loan) is not listed on the most recent OFAC Specially Designated Nationals List prior to delivery of the Mortgage Loan to Fannie Mae.

Section 409.02. Bank Secrecy Act and Anti-Money Laundering Program

If a Lender’s anti-money laundering program (“Lender AML Program”) causes the Lender to determine that a Borrower (or the substitute Borrower in the case of a Transfer/Assumption), or any Key Principal or Principal of such Borrower or substitute Borrower, exhibits evidence of a “red flag” that indicates a high risk of money-laundering or other criminal activity, then prior to requesting a Commitment from Fannie Mae, and without informing the Borrower, any Borrower Affiliate, Key Principal, or Principal, the Lender must report all information that triggered the red flag to Fannie Mae at:

- mortgagefraud_tips@fanniemae.com or 800-732-6643, AND
- partner_risk_management@fanniemae.com.

Notwithstanding anything to the contrary in the Guide, Fannie Mae’s Commitment to purchase a Mortgage Loan is expressly contingent upon the continuing absence of any “red flags” indicating a high risk of money-laundering or other criminal activity associated with the Borrower (or the substitute Borrower in the case of a Transfer/Assumption), or any Key Principal or Principal of such Borrower or substitute Borrower. If the Lender determines that any such “red flag” exists after Fannie Mae’s confirmation of the Commitment for a Mortgage Loan, in addition to reporting the information required above, the Lender must obtain Fannie Mae’s written approval to deliver the Mortgage Loan to Fannie Mae for purchase. The Lender should not provide any information to Fannie Mae that would indicate whether the Lender has filed a Suspicious Activity Report (“SAR”) with the Financial Crimes Enforcement Network (“FinCEN”), and nothing in this section
should be construed as requiring the Lender to report to Fannie Mae whether an SAR has been filed.

Section 409.03. FHFA Suspended Counterparty Program

All Lenders must establish and maintain procedures requiring the Lender to confirm that the FHFA’s Suspended Counterparty Program list (the “SCP List”) does not include the Borrower or any Key Principal or Principal.

Fannie Mae will not (i) purchase any Mortgage Loan, or (ii) approve any Transfer/Assumption of any Mortgage Loan, where the Borrower (or the substitute Borrower in the case of a Transfer/Assumption), any Key Principal or any Principal of such Borrower or substitute Borrower, is included on the SCP List. Prior to the Delivery of the Mortgage Loan to Fannie Mae, it is the Lender’s responsibility to determine and verify that the SCP List does not contain the name of the Borrower, any Key Principal, or any Principal (including any proposed substitute Borrower, Key Principal or Principal in connection with a transfer or assumption of the Mortgage Loan).

Section 410. Execution of Non-Recourse Guaranty (07/15/16)

For any Mortgage Loan having an Underwritten Debt Service Coverage Ratio (“Underwritten DSCR”) of less than 1.35 to 1.00, or a Loan-to-Value (“LTV”) of greater than 65%, a Key Principal is required to execute a Non-Recourse Guaranty. The execution of the Non-Recourse Guaranty by a Key Principal is not required if the Borrower is a Cooperative Organization or a publicly traded entity.

Section 411. Reserved (09/16/13)

Section 412. Maryland IDOT Transactions (09/16/13)

For all Maryland transactions in which an indemnity deed of trust (“IDOT”) is used to secure the Mortgage Loan, the Lender must complete the identical underwriting analysis with regard to the owner of the Property (known as the “IDOT Guarantor” in the Loan Documents) as is required for the Borrower in non-Maryland IDOT Mortgage Loan transactions.
Chapter 1 – Student Housing Properties

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Chapter 1 – Student Housing Properties

Section 101. General (08/22/16)

This Chapter applies to Properties with greater than 40% of the units leased to undergraduate or graduate students. A Mortgage Loan secured by Student Housing Property or a Dedicated Student Housing Property must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

Section 102. Definitions (08/22/16)

Section 102.01. Student Housing Properties

A Student Housing Property is a multifamily residential rental property in which greater than 40% and less than 80% of the units are leased to either undergraduate or graduate students.

Section 102.02. Dedicated Student Housing Property

A Dedicated Student Housing Property is a multifamily rental property in which 80% or more of the units are leased to undergraduate or graduate students. A Dedicated Student Housing Property typically:

- caters to a student tenant base due to its location;
- was specifically constructed as a student property or, although built as conventional multifamily housing, 80% or more of the units are now leased to undergraduate or graduate students; or
- is not readily rentable as conventional multifamily housing.

Section 102.03. Forward Commitments

A Dedicated Student Housing Property is not eligible for a Forward Commitment.

Section 103. General Considerations (08/22/16)

For Student Housing Properties and Dedicated Student Housing Properties, the Lender must consider the following:

- undergraduate or graduate students with full time jobs, and who qualify on their own, shall not be counted toward the student unit concentration;
relative percentage of units leased to graduate or undergraduate students, and changes in the ratio of student to non-student tenants over the past several years;

marketability of the Property to non-student tenants given the size, unit mix, and construction of the units;

rent structure for the units, including premiums in the rent based on the number of tenants occupying the unit, and the ratio of students to bedrooms;

structure of lease agreements (e.g., signed by one tenant or all tenants, co-signed by parents, lease term, etc.);

outlook for the enrollment and student composition of the college/university (e.g., potential full time and part-time student body);

current and forecasted supply and demand for student housing at the college/university, including any college/university-sponsored housing construction;

Key Principal’s experience in managing and operating Student Housing Properties and Dedicated Student Housing Properties;

Property’s proximity to campus and the ability of the tenants to walk to class or other campus locations;

whether the Property is located on a college/university-owned transportation line; and

whether the Property is subject to a Ground Lease or a master lease, and the structure and terms of either.

Section 104. Dedicated Student Housing Property Requirements (01/23/17)

Section 104.01. Eligible Property Characteristics

A Dedicated Student Housing Property must:

be near a campus that has at least 10,000 students, the majority of which are full-time students;

be within 2 miles of a campus boundary line as determined by the local municipality or governing authority, or on a college/university-owned transportation line; and

have operated for at least 1 full school year (i.e., August/September through April/May), and be leased for the beginning of the second full school year.

Section 104.02. Ineligible Property Characteristics

Any Dedicated Student Housing Property that offers food service is ineligible for purchase by Fannie Mae.
Section 104.03. Residential Lease Requirements

At least 80% of all leases of units in a Dedicated Student Housing Property must have a minimum lease term of 12 months. If the unit is leased to students, the unit must:

- have a parental guarantee of the lease obligations; or
- be leased by students having the financial ability to pay the required rent (whether through employment or other documented financial means).

Section 104.04. Properties on College/University-Owned Land

A Dedicated Student Housing Property located on college/university-owned land must also meet the following requirements:

- the Borrower must have control over all economic decisions (i.e. financing, rent structure, etc.) at the Property;
- the Key Principal must (i) have a minimum of 5 years of Dedicated Student Housing experience, and (ii) operate at least one other Dedicated Student Housing Property located on college- or university-owned land;
- any Ground Lease must comply with the requirements of Part IIIA, Section 303; and
- any other applicable requirements as determined by Fannie Mae.

Section 104.05. Additional Underwriting Documentation Requirements

For Pre-Review Mortgage Loans on a Dedicated Student Housing Property, the Lender must submit the following information in DUS Gateway; otherwise the information must be included in the Lender’s Transaction Approval Memo:

- name of college/university;
- current total enrollment number;
- current enrollment percentage of full time students and undergraduates;
- location of the Property relative to the college/university;
- whether the Property is part of the college/university’s housing referral program;
- amenity package details for the Property, if any;
- whether the Property is located on a college/university-owned transportation line;
- a detailed description of the current college/university-related rental housing market (including the amount of on-campus rental housing space available, occupied, and future on-campus or off-campus rental housing planned or under construction);
percentage of the Property’s units pre-leased for the semester/quarter;
percentage of the Property’s tenants that are students;
percentage of the Property’s leases that have (i) 12-month terms, and (ii) less than 12-month terms;
whether the Property is subject to a Ground Lease or a master lease, and the structure/terms of either; and
whether parental guaranties are required for leases at the Property.

Section 105. Net Cash Flow (07/15/16)

Section 105.01. Underwritten Net Cash Flow (Underwritten NCF)

Underwritten NCF is calculated the same way for Student Housing Properties and Dedicated Student Housing Properties. For Dedicated Student Housing Properties, Fannie Mae will permit “by-the-bed” income and valuation for the units occupied by undergraduate and graduate students provided that (i) the Property has a minimum of 2 years of operating statements using that method, and (ii) the rental rates are comparable to similar student housing properties.

The maximum Underwritten NCF for a Student Housing Property or a Dedicated Student Housing Property must be calculated as follows, and include the specific income and operating expense line items noted in the loan-sizing spreadsheet, although the Lender is delegated to calculate the Underwritten NCF more conservatively:
# UNDERWRITTEN NET CASH FLOW
## (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)

## CALCULATION OF INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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</table>
| 1    |          | **GROSS RENTAL INCOME (GRI)** – market rents for vacant units based on a current rent roll (multiplied by 12), plus:  
  ▣ for a Student Housing Property – the lower of:  
    • actual rents in place for occupied units on a per unit basis; or  
    • the market rents that would be available if the Property was not leased to students; and  
  ▣ for a Dedicated Student Housing Property – the lower of:  
    • the actual rents in place for occupied units on a per unit or “by the bed” basis; or  
    • the market rents for comparable Dedicated Student Housing Properties. |
| 2    | PLUS     | To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the “model apartment” operating expense in the “general and administrative” category, or actual rent from employee units deducted in the “employee” operating expense in the “payroll and benefits” category). |
|      |          | **EQUALS** **GROSS POTENTIAL RENT (GPR)** |
| 3    | MINUS    | Corporate Premiums or College/University-related Premiums |
| 4    | MINUS    | Physical Vacancy\(^1\) – if applicable, market rents for vacant units based on a current rent roll (multiplied by 12) |
| 5    | MINUS    | Concessions (i.e., the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for one or more months, move-in allowance, etc.)\(^1\) |
| 6    | MINUS    | Bad Debt (i.e., the aggregate amount of unpaid rental income due from tenants determined to be uncollectable): include any adjustments to Other Income for Bad Debt\(^1\) |
|      |          | **EQUALS** **NET RENTAL INCOME (NRI)** |

\(^1\) The total of Item 4, plus Item 5, plus Item 6 must equal the greater of (i) the difference between the trailing 12-month net rental collections (annualized) and the GPR, or (ii) 5% of GPR. If trailing 12-month NRI is not available, use a minimum 10% of GPR.
UNDERWRITTEN NET CASH FLOW
(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)

CALCULATION OF OTHER INCOME

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<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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</table>
| 7    | PLUS     | Actual other income (except Premiums and Corporate Premiums) generated through ongoing operations. The income must:  
- be stable;  
- be common in the market;  
- exclude one-time extraordinary non-recurring items; and  
- be supported by prior years.  
The Lender must assess the individual month Underwritten Other Income within the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). If there are fluctuations, the Lender may use Underwritten Other Income that exceeds the trailing 3 month Other Income (annualized), as long as the Underwritten Other Income does not exceed the highest 1 month Other Income used in the trailing 3 month Other Income calculation. The Lender must fully support any changes to the Underwritten Other Income. |

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<th>ITEM</th>
<th>FUNCTION</th>
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<tbody>
<tr>
<td>8</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable)</td>
</tr>
<tr>
<td>9</td>
<td>MINUS</td>
<td>10% of the actual commercial income</td>
</tr>
</tbody>
</table>

2 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

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<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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</thead>
</table>
| 10   | PLUS     | Premiums (e.g., identifiable additional income from furnished units or short-term leases), provided that the income must:  
- be a stable or increasing source of income;  
- be typical (in type and amount) in the market;  
- be supported by prior years; and  
- not exceed the income generated over the most recent year or trailing 12-month period. |
| 11   | PLUS     | Corporate Premiums or College/University-related Premiums\(^3\) (e.g., identifiable additional income from |
**UNDERWRITTEN NET CASH FLOW**  
(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)

- corporate units, housekeeping services, etc.), provided that this income must:
  - not be included for more than 10% of the Property’s units;
  - be stable or increasing;
  - be typical (in type and amount) in the market;
  - be supported by prior years; and
  - not exceed the income generated over the most recent year or trailing 12-month period.

| 12 | PLUS | Laundry/vending, parking, and all other income as detailed in Part IIIA, Section 311.01. |

**EQUALS**  
EFFECTIVE GROSS INCOME (EGI)

3 Corporate or College/University-related Premium income cannot exceed 3% of GRI.

**CALCULATION OF OPERATING EXPENSES**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>13</td>
<td>MINUS</td>
<td>Line-by-line stabilized Property operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included. The Lender must assess past operating history, the appraiser’s expense analysis, all information available to the Lender (including property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets), and the Borrower’s budget (in the case of an acquisition loan). The Lender should analyze historical operations at the Property and apply an appropriate increase over the prior year’s operations in determining an estimate. If a trend is not applied, the Transaction Approval Memo must provide clear support and justification for stable or declining operating expenses.</td>
</tr>
</tbody>
</table>
| 14   | MINUS    | Property Management Fee equal to the greatest of:  
  - 4% of EGI;  
  - actual Property Management Fee (exclude any portion of a non-arm’s length Property Management Fee that is subordinated to the Mortgage Loan); or  
  - market Property Management Fee. |
### UNDERWRITTEN NET CASH FLOW
(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Step</th>
<th>Operation</th>
<th>Calculation</th>
</tr>
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| 15   | MINUS     | Real Estate Taxes based on the greatest of:  
- actual future tax bill or bills covering a full calendar year;  
- prior full year’s taxes multiplied by 103% (the 3% trending is not required for trailing-12 month or year-to-date annualized expenses); or  
- in California, the Mortgage Loan amount or assessed value multiplied by the millage rate.  
All tax assumptions must consider any automatic reassessment upon acquisition in the next 12 month period. |
| 16   | MINUS     | Insurance equal to:  
- the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or  
- 110% of the current expense, for insurance policies with a remaining term less than 6 months. |
| 17   | MINUS     | Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses as detailed in Part IIIA, Section 311.01. |
|      |           | **EQUALS** UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI) |
| 18   | MINUS     | Capital Expenditures (Replacement Reserve) as required in Part IIIB, Section 106 |
|      |           | **EQUALS** UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF) |

### Section 105.02. Calculation of Underwritten DSCR

The Lender must calculate Underwritten DSCR as provided in Part IIIA.

### Section 106. Replacement Reserve (07/15/16)

#### Section 106.01. Determining Replacement Reserve Amount

The Lender must determine the Replacement Reserve for a Student Housing Property or a Dedicated Student Housing Property as provided in Part IIIA, Section 318, provided that the minimum Replacement Reserve amount is $250 per unit.
Section 106.02.  Replacement Reserve Funding

Full funding of the Replacement Reserve is required for all Mortgage Loans secured by a Student Housing Property or a Dedicated Student Housing Property.
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Chapter 2 – Property Dependent on Military Base

Section 201. General (08/22/16)

This Chapter applies to a Military Housing Property (as defined below). A Mortgage Loan secured by a Military Housing Property must meet all of the underwriting requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

Section 202. Definitions (08/22/16)

A Military Housing Property is any multifamily rental Property in which 40% or greater of the units are occupied by individuals serving in, or employed by, the United States military, or that is located in an area where military and military-related employment accounts for 40% or greater of the local employment base.

Section 203. Ineligible Property Types (08/22/16)

Any Mortgage Loan secured by a Property located on a military installation or on government-owned land is not eligible for purchase by Fannie Mae.

Section 204. General Considerations (08/22/16)

For a Military Housing Property with 40% or greater military tenancy, the Lender must consider:

- the stability of the military installation, including deployment/base closing risks;
- the historical performance of the Property during any deployment;
- the impact of any military housing plans; and
- the ability of the Property to be re-tenanted in the event of a base closing.
Chapter 3 – Moderate Rehabilitation Properties

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Chapter 3 – Moderate Rehabilitation Properties

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Chapter 3 – Moderate Rehabilitation Properties

Section 301. General (02/22/16)

A “Moderate Rehabilitation Mortgage Loan” is a Mortgage Loan secured by a Property (the “Moderate Rehabilitation Property”) that will undergo Rehabilitation Work costing $10,000 per unit or greater (based upon the total number of residential units at the Property rather than the number of units actually being rehabilitated), and which Rehabilitation Work will be completed within 3 years of the Mortgage Loan Origination Date. The requirements of this Chapter do not apply if the aggregate cost of all Rehabilitation Work is less than $10,000 per unit.

Note: Although the Lender must include the estimated cost of all Completion/Repairs in determining whether the total cost of the Rehabilitation Work equals or exceeds the $10,000 and $20,000 thresholds requiring the Lender to comply with this Chapter and the additional requirements of Section 304 of this Chapter, respectively, all Completion/Repairs identified by the Property Condition Assessment and included as part of the Rehabilitation Work must be completed according to the requirements of Part IIIA, Section 317, including:

- any shorter timeline for completing the Completion/Repairs; and
- any higher percentage above the cost of Completion/Repairs required to be funded into a Completion/Repair Escrow when full or partial funding of the Completion/Repair Escrow is required by the Lender at the Mortgage Loan Origination Date.

In addition, if the Rehabilitation Work is financed through Mezzanine Financing, the Lender must also follow the requirements of Part IIIC, Chapter 10.

A Moderate Rehabilitation Mortgage Loan is eligible for purchase by Fannie Mae if it meets all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the applicable Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

Section 302. Underwriting Considerations (02/22/16)

Analysis and determinations for underwriting a Moderate Rehabilitation Mortgage Loan must be documented in the Transaction Approval Memo. Specifically, the Lender must:

- analyze whether the projected cost estimates for the Rehabilitation Work are reasonable and sufficient to complete the entire scope of the planned Rehabilitation Work;
analyze the budget for the Rehabilitation Work, including the sources, uses, and schedule, to ensure adequate capital availability during the term of the Rehabilitation Work;

ensure that all construction contracts for completion of the Rehabilitation Work are guaranteed maximum price contracts which specify a completion date;

determine whether a Completion/Repair Agreement or Rehabilitation Reserve Agreement (Form 6222.Mod), including a fully funded Completion/Repair Escrow or Rehabilitation Reserve Account, is appropriate for the Rehabilitation Work;

analyze whether the Sponsor’s net worth and liquidity are adequate to fund any unexpected cost overruns or operating deficits;

assess the Sponsor’s demonstrated experience with similar Moderate Rehabilitation Properties in the same or similar real estate markets;

consider the effect of the Rehabilitation Work on the tenants at the Property, and analyze the impact of tenant displacement and the feasibility of any relocation plan that will minimize the effects of such displacement;

analyze whether sufficient economic incentive exists for the Borrower to complete the entire scope of the Rehabilitation Work, including the feasibility of achieving the projected post-rehabilitation rents, and whether those rents are sufficient to meet target effective gross income;

for Multifamily Affordable Housing Properties, ensure rents expected to be charged after the completion of the Rehabilitation Work are consistent with any rent or income restrictions; and

determine that the Rehabilitation Work does not adversely affect the health and safety of tenants, guests, or employees at any time.

Section 303.  Completion of Rehabilitation Work (02/22/16)

Items identified by the PCA as Completion/Repairs must be completed within any shorter timeframe required by Part IIIA, Section 317. All other Rehabilitation Work must be completed in a timely manner, but not later than 36 months after the Mortgage Loan Origination Date.

If the Moderate Rehabilitation Mortgage Loan meets the requirements of Part IIIA, Section 310 for using the Appraised Value on an “as completed” basis, then the Rehabilitation Work may be completed after the 12 month period required by Part IIIA, Section 310.
Section 304. Additional Underwriting and Loan Document Requirements (02/22/16)

The following provisions are required for any Moderate Rehabilitation Property with Rehabilitation Work that will cost in excess of $20,000 per unit, and should be considered for any Moderate Rehabilitation Property.

Section 304.01. Rehabilitation Work Evaluation Report

If the Rehabilitation Work includes structural additions or modifications, the Lender must obtain, in addition to the Property Condition Assessment (PCA) required by Part IIIA, Section 316, a “Rehabilitation Work Evaluation Report” from either the PCA Consultant or a licensed architect or engineer that reviews and evaluates the Property, the scope of the Rehabilitation Work, and all significant construction contracts related to the Rehabilitation Work. The Rehabilitation Work Evaluation Report must address, and the Lender must evaluate:

- whether the planned Rehabilitation Work is structurally sound and physically feasible;
- the reasonableness of the estimated cost of the Rehabilitation Work and the completion schedule, including whether the Rehabilitation Work can be completed within the Borrower’s scheduled time frame, but not more than 36 months after the anticipated Mortgage Loan Origination Date;
- compliance with all zoning, building, and fire code regulations; and
- whether additional work not already planned should be undertaken.

Section 304.02. Completion Guaranty and Additional Collateral

A Key Principal must execute a Completion Guaranty (Form 6018) that covers the entire scope of the Rehabilitation Work.

In addition, the Lender must consider whether additional collateral should be required (e.g., deposits into the Rehabilitation Reserve Account in excess of the budget for the Rehabilitation Work, operating deficit reserve, Letter of Credit, etc.).

Section 304.03. Rehabilitation Reserve Agreement

The Borrower must execute the Modifications to Multifamily Loan and Security Agreement (Rehabilitation Reserve – Moderate Rehabilitation) (Form 6222.Mod) and must:

- identify on the Rehabilitation Work Schedule the planned scope of the Rehabilitation Work, including all of the Rehabilitation Work items, estimated costs, allowance for cost overruns, and completion dates; and
- complete a budget for the planned Rehabilitation Work, and fund into the Rehabilitation Reserve Account:
☐ the entire budgeted amount (or such greater amount as deemed appropriate by the Lender) of all Rehabilitation Work not identified as Completion/Repairs by the PCA; and

☐ any higher percentage over the cost of any Rehabilitation Work identified as Completion/Repairs that would be required by Part IIIB, Section 317 to be funded into a Completion/Repair Escrow.
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Chapter 4 – Pre-Stabilized Properties

Section 401. General (4/11/16)

For availability of a Mortgage Loan secured by a Pre-Stabilized Property, the Lender must contact its Fannie Mae Deal Team.
Chapter 5 – Seniors Housing Properties

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Chapter 5 – Seniors Housing Properties

Section 501. General (04/20/15)

Section 501.01. General Requirements

This Chapter applies to any Mortgage Loan secured by a Seniors Housing Property, which must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements in this Chapter.

Section 501.02. Lender Eligibility

Due to the unique characteristics of Seniors Housing Properties, a Mortgage Loan secured by a Seniors Housing Property is not eligible for purchase by Fannie Mae unless the Lender is approved in writing to underwrite Senior Housing Properties. The authority to underwrite a Mortgage Loan for purchase by Fannie Mae that is secured by a Seniors Housing Property containing Skilled Nursing units must be specified in the Mortgage Loan’s written approval.

Section 501.03. Key Principal/Sponsor Experience

The Key Principal or Sponsor must have successfully owned or operated other Seniors Housing Properties of commensurate type, size, and service level as the Seniors Housing Property that will secure the Mortgage Loan.

Section 502. Seniors Housing Property Types (03/26/18)

Seniors Housing Properties consist of units of one or more of the types listed in this Section 502.

Section 502.01. Independent Living

“Independent Living” communities and units are restricted to the elderly and provide limited programs of assistance with domestic activities (e.g., meals, housekeeping, activities, transportation, etc.). Typically, Independent Living units resemble standard market rate units.

Seniors Housing Properties comprised entirely of Independent Living units are generally not licensed and usually do not provide assistance with healthcare or Activities of Daily Living.
(“ADL”), which include support for medication management and assistance with bathing, dressing, toileting, ambulating, eating, and other similar activities.

**Section 502.02. Assisted Living**

“Assisted Living” communities and units offer services that are limited to non-medical personal care, including ADL assistance, and are typically licensed and regulated by a state or local governmental authority. Typically, Assisted Living units are somewhat smaller than Independent Living units and may have kitchenettes rather than full kitchens.

Operating procedures at Seniors Housing Properties with Assisted Living units must mandate regular resident assessments to ensure that residents are receiving personal care appropriate for their levels of need. Assisted Living units are sometimes called “board and care”, “personal care”, “resident care”, or “domiciliary care”, depending on the licensing terminology used by the applicable state.

**Section 502.03. Alzheimer’s/Dementia Care (also called Memory Care)**

“Alzheimer’s/Dementia Care” communities, units and beds are designed for residents with significant cognitive impairment resulting from Alzheimer’s disease or other dementia. Alzheimer’s/Dementia Care beds are not licensed as Skilled Nursing beds, but may have other licensing requirements.

**Section 502.04. Skilled Nursing (also known as Nursing Homes or Nursing Units)**

“Skilled Nursing Facilities” and “Skilled Nursing” units are highly regulated and provide 24-hour resident supervision and registered nursing care services. Skilled Nursing units do not have kitchens.

**Section 502.05. Continuing Care Retirement Communities**

“Continuing Care Retirement Communities” (CCRC) are Seniors Housing Properties that provide a continuum of care on a single campus, including Independent Living, Assisted Living, Alzheimer’s/Dementia Care, Skilled Nursing, or any combination of these unit types, and may be structured as traditional market rate rental properties or utilize condominium/cooperative structures. Resident payment plans vary and may include entrance fees. Typically, the majority of the units in a CCRC are Independent Living units.

A Continuing Care Retirement Community is subject to the following minimum requirements:

- 90% physical occupancy for each of the past 5 consecutive fiscal years;
all Skilled Nursing units must pass the Skilled Nursing NCF Test set forth in this Chapter;

debt service reserves equal to 1 year of all required Principal and Interest payments due on the Mortgage Loan (debt service reserves must include principal amortization unless the Mortgage Loan is full term interest-only); and

an Underwritten Debt Service Coverage Ratio of 1.00:1.00 based on annualized rental collections and operating expenses, exclusive of net entrance fees.

An underwriting submission for a CCRC that has an entrance fee must contain a summary and analysis of the following:

- actuarial report (including a copy of the report);
- range of entrance fees offered and the weighted average entrance fee. A Seniors Housing Property’s entrance fees must be within the range of the average median home values in the local market;
- entrance fee refund plans (e.g., full, partial, declining, no refund, etc.), and whether the entrance fee reserve fund can be assigned to the Lender as collateral;
- net entrance fee income for the past 5 years (i.e., entrance fee collections minus refunds);
- sufficiency of entrance fee reserves;
- market analysis of entrance fees;
- underwritten net entrance fee income;
- historical annual resident turnover;
- required operating reserves, and whether the reserves can be assigned to the Lender as collateral; and
- the identity of all governmental authorities that license the Seniors Housing Property and each Seniors Housing Operator, and the status of each of the required licenses.

Section 503. Seniors Housing Property Eligibility (03/26/18)

Section 503.01. Eligible Seniors Housing Property Characteristics and Occupancy

A Mortgage Loan secured by a Seniors Housing Property is eligible for purchase by Fannie Mae if the Property has the following design features:

- convenience features applicable to the elderly in all units, such as grab bars in the bathrooms, emergency pull-cords, etc.;
- fully operational sprinkler system throughout each level of each building (i.e., units and common areas), regardless of local building code or other governmental authority requirements;
- commercial kitchen for preparing meals for the residents; and
- kitchens or kitchenettes and bathrooms in each Independent Living and Assisted Living unit.

**Section 503.02. Ineligible Seniors Housing Property Characteristics**

A Mortgage Loan secured by a Seniors Housing Property is not eligible for purchase by Fannie Mae if the Property:

- is comprised of a single building with 100% Skilled Nursing units; or
- has Skilled Nursing Units but does not meet the Skilled Nursing NCF Test.

**Section 504. Seniors Housing Property Income (03/26/18)**

**Section 504.01. Underwritten Net Cash Flow (Underwritten NCF)**

The maximum Underwritten NCF must be calculated as follows, incorporating only the income and expense line items that are applicable to the Property, but including the specific income and operating expense line items noted in the loan-sizing spreadsheets. In all instances, the Lender is delegated to calculate the Underwritten NCF more conservatively than shown below.

<table>
<thead>
<tr>
<th>UNDERWRITTEN NET CASH FLOW (SENIORS HOUSING PROPERTY)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CALCULATION OF INCOME</strong></td>
</tr>
<tr>
<td><strong>ITEM</strong></td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
</tbody>
</table>
## UNDERWRITTEN NET CASH FLOW
(SENIORS HOUSING PROPERTY)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>“model apartment” operating expense in the “general and administrative” category, or actual rent from employee units deducted in the “employee” operating expense in the “payroll and benefits” category.</td>
</tr>
<tr>
<td><strong>EQUALS</strong></td>
<td><strong>GROSS POTENTIAL RENT (GPR)</strong></td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
</tr>
<tr>
<td>6</td>
<td>MINUS</td>
</tr>
<tr>
<td>7</td>
<td>MINUS</td>
</tr>
<tr>
<td><strong>EQUALS</strong></td>
<td><strong>NET RENTAL INCOME (NRI)</strong> (^2,3)</td>
</tr>
</tbody>
</table>

1. The sum of Items 5, 6, and 7 must equal the greater of (i) the difference between the trailing 3-month net rental collections (annualized) and the GPR, or (ii) the following percentages:
   - Independent Living: if the percentage of Independent Living units is greater than 50%, then use 5% of GPR;
   - Assisted Living (60 total units or more): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimer’s/Dementia Care units is 50% or greater, then use 5% of GPR;
   - Assisted Living (fewer than 60 total units): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimer’s/Dementia Care units is 50% or greater, then use 10% of GPR;
   - Alzheimer’s/Dementia Care: if the percentage of Alzheimer’s/Dementia Care units is 100%, then use 10% of GPR;
   - Skilled Nursing units: use 20% of collections based on the trailing period used in determining Skilled Nursing Income in Item 3 above;

2. The Lender must assess whether there was any decline in NRI as detailed in Part IIIA, Section 311.01 and adjust Underwritten NRI as required.

## CALCULATION OF ASSISTED LIVING SERVICE INCOME

<table>
<thead>
<tr>
<th><strong>ITEM</strong></th>
<th><strong>FUNCTION</strong></th>
<th><strong>DESCRIPTION</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>PLUS</td>
<td>Trailing 12 month Nursing/Medical Income (includes Assisted Living Service Income)</td>
</tr>
<tr>
<td>9</td>
<td>PLUS</td>
<td>Trailing 12 month ancillary income attributable to Skilled Nursing units, if applicable</td>
</tr>
</tbody>
</table>

## CALCULATION OF NET ENTRANCE FEE INCOME

<table>
<thead>
<tr>
<th><strong>ITEM</strong></th>
<th><strong>FUNCTION</strong></th>
<th><strong>DESCRIPTION</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>PLUS</td>
<td>Net entrance fee income associated with Continuing Care Retirement Communities – resident entrance fee collections minus entrance fee refunds, but not more than the annualized</td>
</tr>
</tbody>
</table>
UNDERWRITTEN NET CASH FLOW  
(SENIORS HOUSING PROPERTY)

average of the trailing 60-months of Net Entrance Fee Income.

CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable)</td>
</tr>
<tr>
<td>12</td>
<td>MINUS</td>
<td>10% of the actual commercial income</td>
</tr>
</tbody>
</table>

3. If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>PLUS</td>
<td>Trailing 12 month Other Income for: second resident fees, meals, tray service, laundry, special transportation, community fees, parking revenue, plus any other income.</td>
</tr>
</tbody>
</table>

EQUALS EFFECTIVE GROSS INCOME (EGI)

CALCULATION OF OPERATING EXPENSES

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>MINUS</td>
<td>Line-by-line stabilized Property operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included. The Lender must assess past operating history, the appraiser’s expense analysis, all information available to the Lender (including property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets), and the Borrower’s budget (in the case of an acquisition loan). The Lender should analyze historical operations at the Property and apply an appropriate increase over the prior year’s operations in determining an estimate. If a trend is not applied, the Transaction Approval Memo must provide clear support and justification for stable or declining operating expenses.</td>
</tr>
</tbody>
</table>
| 15   | MINUS    | Property Management Fee equal to the greatest of:  
  - 5% of EGI;  
  - actual Property Management Fee; or  
  - market Property Management Fee. |
## UNDERWRITTEN NET CASH FLOW (SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Step</th>
<th>MINUS</th>
<th>Description</th>
</tr>
</thead>
</table>
| 16   |       | Real Estate Taxes based on the greatest of:  
  |      |   - actual future tax bill or bills covering a full calendar year;  
  |      |   - prior full year’s taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or  
  |      |   - in California, the Mortgage Loan amount or assessed value multiplied by the millage rate.  
  |      | All tax assumptions must consider any automatic reassessment upon acquisition in the next 12 month period. |
| 17   |       | Insurance equal to:  
  |      |   - the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or  
  |      |   - 110% of the current expense, for insurance policies with a remaining term less than 6 months. |
| 18   |       | Room expense – housekeeping, if applicable |
| 19   |       | Meals expense, if applicable |
| 20   |       | Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent and all other expenses as detailed in Part IIIA, Section 311.01.  
  | **EQUALS** | UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI) |
| 21   | MINUS | Capital Expenditures (Replacement Reserve) as required in Part IIIB, Section 505  
  | **EQUALS** | UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF) |

**Section 504.02. Calculation of Underwritten DSCR**

The Lender must calculate the Underwritten DSCR as provided in Part IIIA.

**Section 504.03. Calculation of Skilled Nursing NCF Test**

A Mortgage Loan secured by a Senior Housing Property where the NCF generated by the Skilled Nursing units is greater than 20% of the Property’s NCF is not eligible for purchase by
Fannie Mae. The Lender must calculate the Skilled Nursing NCF to determine if a Property will meet the Skilled Nursing NCF Test. This test must be performed at underwriting and will be monitored on an annual basis.

The Skilled Nursing NCF Test is a Property specific test. Therefore, if a Property with Skilled Nursing units is cross-defaulted or cross-collateralized with (i) another Property securing the same Mortgage Loan, or (ii) another Mortgage Loan, the Property with Skilled Nursing units must be tested independently.

The Skilled Nursing NCF calculation is:

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td><strong>SKILLED NURSING INCOME</strong> – actual trailing 12-month collections for Skilled Nursing units (if 12 month collections are not available, then actual trailing 6-month collections (annualized))</td>
</tr>
<tr>
<td>2</td>
<td>MINUS</td>
<td>20% of collections based on the trailing period used in determining the Skilled Nursing Income</td>
</tr>
<tr>
<td>3</td>
<td>PLUS</td>
<td>Ancillary income attributable to Skilled Nursing units</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong></td>
<td><strong>SKILLED NURSING EFFECTIVE GROSS INCOME (EGI)</strong></td>
</tr>
</tbody>
</table>

**CALCULATION OF SKILLED NURSING EXPENSES**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>MINUS</td>
<td>Fixed Expenses – greater of actual or allocated fixed expenses (e.g., real estate taxes, liability insurance, etc.) for Skilled Nursing units</td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Variable Operating Expenses for Skilled Nursing units</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong></td>
<td><strong>SKILLED NURSING NET CASH FLOW (SKILLED NURSING NCF)</strong></td>
</tr>
<tr>
<td>6</td>
<td>DIVided BY</td>
<td>UNDERWRITTEN NCF as calculated in Section 504.01</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong></td>
<td><strong>SKILLED NURSING NCF PERCENTAGE</strong></td>
</tr>
</tbody>
</table>
Section 504.04. Calculation of Operating Lease Ratios

If the Senior Housing Operator is not an Affiliated Property Operator (as defined in the Loan Documents) of the Borrower or the Key Principal, the Property must achieve the following ratios:

- Operating Lease Coverage Ratio - the minimum underwriting ratio for Property Underwritten NCF to operating lease payments is:
  - 1.10:1.00 for Seniors Housing Properties with greater than 50% Independent Living units; and
  - 1.15:1.00 for Seniors Housing Properties where the combined number of Assisted Living, Alzheimer’s/Dementia Care, and/or Skilled Nursing units equals at least 50% of the total number of all units.

- Operating Lease Payment to DSCR - the minimum underwriting ratio of (i) the current year operating lease payment, to (ii) the underwritten fixed rate debt service payment, is:
  - 1.15:1.00 for Seniors Housing Properties with greater than 50% Independent Living units; and
  - 1.20:1.00 for Seniors Housing Properties where the combined number of Assisted Living, Alzheimer’s/Dementia Care, and/or Skilled Nursing units equals at least 50% of the total number of all units.

Section 504.05. Analysis of Operating Leases

Together with the underwriting narrative, the Lender must submit a copy of each management agreement, operating lease, master lease, sublease, including all exhibits and amendments, and a completed Seniors Housing Operating Lease Review Checklist (Form 6487.SRS) analyzing the underwriting and legal aspects of each lease and its impact on the operations of the Property, and the respective legal obligations of the Borrower, each Guarantor, and the Senior Housing Operator under the Loan Documents.

Section 505. Replacement Reserve (07/15/16)

The Lender must determine the Replacement Reserve for a Seniors Housing Property as provided in Part IIIA, provided that the minimum Replacement Reserve amount is $300 per unit or, if the Property contains Skilled Nursing units, then the minimum Replacement Reserve amount is $450 per unit.
Section 506. Medicaid Funds (03/26/18)

Section 506.01. Dependency on Medicaid Funds and Medicaid Transition Reserve

No more than 20% of the Seniors Housing Property’s EGI may be derived from funds paid to a provider by governmental authorities or managed care organizations, as applicable, under Medicaid provider agreements (“Medicaid Funds”).

To mitigate the risk associated with withholding, termination, or delay in the receipt of any Medicaid Funds, Fannie Mae may require that the Borrower deposit funds into a Medicaid transition reserve account with the Lender if more than 20% of the Seniors Housing Property’s EGI is derived from funds paid to a provider by governmental authorities or managed care organizations under Medicaid provider agreements (“Medicaid Funds”). If Fannie Mae requires a Medicaid transition reserve, the Lender must determine the amount of the Medicaid transition reserve by considering the reimbursement rates of the governmental authority or managed care organization, and the percentage of Medicaid-supported residents at the Property. When a Medicaid transition reserve is required, the Lender must use the Modifications to Multifamily Loan and Security Agreement (Medicaid Transition Reserve) (Form 6237.SRS) and Modifications to Multifamily Loan and Security Agreement – Addenda to Schedule 2 – Summary of Loan Terms (Medicaid Transition Reserve) (Form 6102.21.SRS).

Section 506.02. Account Control Agreement

If more than 20% of a Seniors Housing Property’s EGI is derived from Medicaid Funds, Fannie Mae may also require the Medicaid Funds be deposited into an account that is subject to an account control agreement acknowledging Fannie Mae’s first Lien in, and control over, the Medicaid Funds. Although Lenders are not required to use the Fannie Mae form of account control agreement, Fannie Mae review and approval is required if another form is used.

Section 506.03. State Medicaid

The Seniors Housing Property must be located in a state that has a Medicaid waiver in place or, alternately, has incorporated a provision into its state Medicaid plan that allows for the payment of services or housing costs from Medicaid Funds. The Lender must document the existence of the Medicaid waiver or Medicaid plan and demonstrate that it allows for the payment for services performed and housing costs incurred at the Property. If the Lender is unable to provide the required documentation, then any income derived from Medicaid Funds must not be included in the Underwritten NCF.
Section 507. Consultant Reports (04/20/15)

Section 507.01. Management, Operations, and Regulatory Compliance Reports

The Lender must engage a third party professional to analyze the Property ownership structure, management, operations, and regulatory compliance. The third party professional must be a licensed administrator, licensed practical nurse, or registered nurse in good standing, who has (i) held such designation for at least 5 years, and (ii) at least 5 years of experience in both Seniors Housing operations and Seniors Housing regulatory matters. The Lender must assess the information presented and conclusions reached by the third party professional and include a summary of the reports and conclusions in its underwriting narrative.

Section 507.02. Management and Operations Reports

Management and operations reports must be obtained for all Seniors Housing Properties. At a minimum, the reports must assess the:

1. Competency, performance, and experience of management at the corporate, regional, and Property levels;

2. Qualifications of key personnel, noting their Seniors Housing experience and the length of time in their current positions at the Property. Copies of available resumes should be included;

3. Hiring and screening practices and personnel policies (e.g., employee handbook, orientation materials, initial and in-service training materials, available resources, etc.);

4. Staffing levels, composition and qualifications;

5. Risk management policies and procedures, including identifying and analyzing the background of individuals employed by the Borrower or the Seniors Housing Operator to handle insurance and risk management matters;

6. Policies and procedures supporting, and the alignment of, resident services;

7. Availability and usage of home health services (e.g., whether home health services are available, whether they are provided by the Borrower or an Affiliate of the Borrower, the Seniors Housing Operator or an affiliate of the Seniors Housing Operator, or by third party sources, whether the provider leases space at the Property, etc.);
8. Policies and procedures for documenting residents’ well-being (e.g., periodic resident assessments, tracking of the residents’ general health condition, resident safety and evacuation plans, etc.);

9. Content of the admission application and the residency/lease agreement;

10. Resident turnover data;

11. Availability of replacement Seniors Housing Operators; and

12. Overall management and operations, providing identification and analysis of, and detailed recommendations for, any other matters material to the ownership, operation or management of the Seniors Housing Property.

Section 507.03. Regulatory Compliance Report for Licensed Properties

A “Regulatory Compliance” report is required for all Licensed Seniors Housing Properties. As of the date of the report, the report must include:

1. The identity of all governmental authorities with jurisdiction over the Property, as well as each governmental authority’s definition of the level of care permitted at the Property;

2. Copies and a summary of all surveys conducted during the past 3 years, including a summary and analysis of all deficiencies identified in the surveys, their severity, and the correction plans for both corrected and outstanding deficiencies;

3. A summary and analysis of all enforcement actions imposed by any governmental authority on the Property during the past 3 years resulting from a state survey inspection (e.g., probationary license, ban on admissions, etc.), and a summary and analysis of any remedial plan of action;

4. Photocopies of all regulatory permits, licenses, and certificates;

5. State Property staffing requirements;

6. A summary of the status of any federal, state, or local proposed regulations, or amendments to existing regulations, that could affect the Property or any aspect of the Seniors Housing industry;

7. A summary of the regulatory and licensing procedures required to effect a change in Property ownership, any service provider, authority to operate, or management, including identification of the changes that require advance notice and/or prior
approval from a relevant state or local governmental authority. The summary must address advance notice requirements, including timing, required recipients, and required notice content. If the Borrower or the Seniors Housing Operator is a participant in (a) the state’s Medicaid waiver program (including any contractual relationship between the Borrower or the Seniors Housing Operator and any managed care organization), or (b) any other third party subsidy program, then the report must include an assessment of risk to the Property’s operations if the Medicaid waiver program or other third party subsidy program is discontinued;

8. The identification and analysis of any special insurance requirements imposed by any governmental authority (e.g., workman’s compensation insurance, medical director professional liability insurance, etc.);

9. Copies of sources and references used to complete the report; and

10. An overall assessment of regulatory matters affecting the Property, providing identification and analysis of, and detailed recommendations for, any other matters material to the ownership, operation or management of the Seniors Housing Property.
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Chapter 6 – Manufactured Housing Communities

Section 601. General (10/13/14)

Section 601.01. General Requirements

A Mortgage Loan secured by a Manufactured Housing Community (an “MH Community”) must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

Section 601.02. Definitions

When used in this Guide, the following capitalized terms shall have the meanings set forth below.

- **Age-Restricted Manufactured Housing Community or Age-Restricted MH Community** – an MH Community that limits residents to those who are over a particular age. For example, an MH Community may limit occupancy to persons who are 62 years of age or older or require that at least 80 percent of the Manufactured Homes be occupied by at least one person who is 55 years of age or older.

- **All-Age Manufactured Housing Community or All-Age MH Community** – an MH Community that accepts residents of any age and without any age restriction.

- **Homeowner** – a tenant of the Borrower in the MH Community who pays ground rent to the owner of the MH Community for use and occupancy of the MH Site and for use of the MH Community’s utility services, amenities (such as a clubhouse, golf course, swimming pool, tennis and/or sports courts) and other common facilities.

- **Manufactured Home** – a manufactured home located on an MH Site.

- **Manufactured Housing Community or MH Community** – a residential real estate development consisting of MH Sites, related amenities, utility services, landscaping, roads and other infrastructure.

- **Manufactured Housing Community Mortgage Loan or MH Community Mortgage Loan** – a Mortgage Loan secured by a Manufactured Housing Community.

- **Manufactured Housing Community Score or MH Community Score** – a score of between 3 and 5 based on characteristics of the Manufactured Housing Community described in the table in Section 603.02 of this Chapter.
Manufactured Housing Site or MH Site – a lot within an MH Community on which a Manufactured Home is located.

Section 602. Lender Eligibility (10/13/14)

Due to the unique characteristics of MH Communities, an MH Community Mortgage Loan is ineligible for purchase by Fannie Mae unless the Lender is approved in writing to originate MH Community Mortgage Loans.

Section 603. Legal Property Requirements (08/22/16)

Section 603.01. Manufactured Housing Community Requirements

The security for an MH Community Mortgage Loan consists of the MH Community's land and infrastructure, any Borrower-owned Manufactured Homes held for rental, and any other Borrower-owned property used to provide common amenities for the MH Community. To be eligible for purchase by Fannie Mae, an MH Community Mortgage Loan must be secured by a first priority Lien on an MH Community having the following characteristics:

- paved roads;
- a minimum of 50 Manufactured Housing Sites;
- a minimum of 2 off street paved parking spaces adjoining each Manufactured Home, however the Lender is delegated the authority to waive this requirement based on prevailing conditions in the market, but subject to local zoning ordinances;
- a maximum density not to exceed 12 Manufactured Homes per acre for an existing MH Community and 7 Manufactured Homes per acre for a new MH Community, however the Lender is delegated the authority to waive this requirement based on the typical density acceptable in the market;
- the percentage of tenant-occupied Manufactured Homes must not exceed 35%, and may only exceed 25% if the Borrower’s business plan is to continue to convert tenant-occupied Manufactured Homes to owner-occupied over time;
- at least 50% of the total MH Sites must be doublewide, provided that the Lender is delegated the authority to waive this requirement if the MH Community is competitive, there is market demand for singlewide MH Sites and it is determined that the MH Community has long-term economic viability;
- for an older MH Community, there must be evidence that new Manufactured Homes are being placed in the MH Community as MH Sites are vacated;
- amenity packages must be competitive in the market place;
- landscaping and entrance signage must be high quality and well maintained; and
- any noncontiguous MH Community and an MH Community with phases that are not included as collateral are not acceptable without Fannie Mae approval.
An MH Community must be served by either (i) public underground utilities that comply with local conditions and code requirements, or (ii) private sewage treatment plants, septic systems and private water wells. If the MH Community is served by private sewage treatment plants, septic systems and private water wells, then the following criteria must be met:

- Such facilities must be (i) common for the market, (ii) are not owned by a separate entity, and (iii) meet or exceed all applicable federal, state and local government requirements. The Lender must specifically address the availability and cost of obtaining a backup source for water if an MH Community has a private water well.

- The Lender or its engineer shall have researched the facility’s historic performance to ensure satisfactory compliance with all applicable state and local government requirements. The Lender must verify that any historical violations were minor in nature and that corrective actions have been properly and permanently implemented.

- The operator of the facility, including its employees and contractors, must meet or exceed all applicable federal, state and local government requirements necessary to perform the facility’s ongoing operation and maintenance. If the operator is an employee of the Borrower, the Lender must verify the availability of a local, qualified vendor that could be retained if it is necessary to obtain substitute services. After exercising reasonable due diligence, including contacting municipal agencies, the Lender or its engineer, shall determine that the MH Community’s connection to a municipal system has not been mandated, nor is there a high probability of such a mandate. If hookup is imminent, the Lender should determine if an escrow for the cost is appropriate.

**Section 603.02. Manufactured Housing Community Score**

The Lender must determine the MH Community Score based on a review of the criteria contained in the MH Community Quality Rating Standards table below. The applicable MH Community Score must be entered into the Multifamily Committing and Delivery System (“C&D”) at the time of the Delivery of the Mortgage Loan. Any MH Community unable to meet the characteristics necessary to achieve a Level 3 Quality Rating is not eligible for purchase by Fannie Mae. Notwithstanding the preceding sentence, the Lender is delegated the authority to waive this requirement and an MH Community that meets most of the Level 3 Quality Rating criteria is eligible for purchase by Fannie Mae, if the Lender determines that:

- the unsatisfactory characteristics are not materially detrimental to the performance, overall appearance, desirability, and quality of the MH Community; or

- any failed characteristic can be remediated as a Completion/Repair item.
## Manufactured Housing Community Quality Rating Standards

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Level 3 Quality Rating</th>
<th>Level 4 Quality Rating</th>
<th>Level 5 Quality Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum Standard</strong></td>
<td></td>
<td>Minimum Standard applies except as modified below</td>
<td>Level 4 applies except as modified below</td>
</tr>
<tr>
<td><strong>1 Park Occupants</strong></td>
<td>Seniors or Family</td>
<td>Same as Level 3</td>
<td>Seniors Only</td>
</tr>
<tr>
<td><strong>2 Streets</strong></td>
<td>Paved Roads</td>
<td>Same as Level 3</td>
<td>Rolled curbs (if warranted by layout / drainage)</td>
</tr>
<tr>
<td><strong>3 Home Sites</strong></td>
<td>The area under the Manufactured Home is to consist of concrete, crushed rock or dirt. Entry to the home must be through a patio or raised porch. All Manufactured Homes must be supported by stacks of hollow concrete block or steel pier systems, along the main beams, with ground anchors and steel straps to hold the frame against movement and must meet local and state requirements for same.</td>
<td>Same as Level 3 with <strong>most</strong> sites having commercial grade raised porch/cabanas or patios.</td>
<td>Same as Level 3 with <strong>all</strong> sites having commercial grade raised porch/cabanas or patios.</td>
</tr>
<tr>
<td><strong>4 Pad Size</strong></td>
<td>Preference for 50% double wide MH Sites, with Lender-delegated discretion regarding the percentage of doublewide and singlewide sites as long as the MH Community is competitive and there is clear market demand for single wide MH Sites)</td>
<td>Same as Level 3</td>
<td>Minimum 50% double-wide MH Sites</td>
</tr>
<tr>
<td><strong>5 Density</strong></td>
<td>Density should reflect the norm for the Property market (generally, a maximum density of 12 MH Sites per acre).</td>
<td>Density should reflect the norm for the Property market (generally, a maximum density of 7 MH Sites per acre, or 10 MH Sites per acre if developed before 2000).</td>
<td>Same as Level 4</td>
</tr>
<tr>
<td><strong>6 Utilities</strong></td>
<td>All underground public utilities OR fully licensed private sewer treatment plants and private water wells are acceptable if public utilities are not available.</td>
<td>Same as Level 3</td>
<td>Same as Level 3</td>
</tr>
<tr>
<td></td>
<td>Skirts/Hitches</td>
<td>Manufactured Homes should be professionally skirted, with exposed hitches the exception.</td>
<td>100% of the Manufactured Homes to be professionally skirted, and hitches should be covered or removed. Compliance with this requirement can be handled through the Completion/Repair Agreement.</td>
</tr>
<tr>
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</tr>
<tr>
<td>8</td>
<td>Parking</td>
<td>Minimum of 2 paved parking spaces per MH Site on- or off-street site, subject to local ordinances.</td>
<td>Same as Level 3</td>
</tr>
<tr>
<td>9</td>
<td>Amenities</td>
<td>Not required but should be competitive based on market comparables.</td>
<td>Competitive amenity package required.</td>
</tr>
<tr>
<td>10</td>
<td>Grounds</td>
<td>Well maintained landscaping and entrance signage.</td>
<td>High quality landscaping and entrance signage.</td>
</tr>
<tr>
<td>7</td>
<td>Home Exteriors and Age</td>
<td>Well Maintained exteriors. MH Communities over 25-years of age show a trend toward &quot;renewal&quot; through the addition of newer homes as MH Sites are vacated.</td>
<td>Same as Level 3</td>
</tr>
</tbody>
</table>

**Section 603.03. Requirements for Manufactured Homes**

All Manufactured Homes in the MH Community must conform to the requirements of the Federal Manufactured Home Construction and Safety Standards of 1974, as amended from time to time (“HUD Code”) (42 USC chap. 70; 24 CFR Part 3280). However, pre-HUD Code Manufactured Homes may be allowed if:
the MH Community otherwise meets or exceeds the requirements of this Chapter;
the pre-HUD Code homes are in compliance with current safety inspections;
the Borrower certifies that no additional pre-HUD Code homes will be added to the
MH Community during the term of the Mortgage Loan; and
the Lender discloses the number of pre-HUD Code homes in the underwriting
narrative.

Section 603.04. Manufactured Housing Community Located in a
Flood Zone

An MH Community located in a flood zone is generally not acceptable for purchase by
Fannie Mae because the insurable value of the Property is considerably less than the amount of the
Mortgage Loan since the Manufactured Homes (with the exception of any Borrower-owned
Manufactured Homes) do not secure the Mortgage Loan. The following exceptions for “rising
water” and “moving water” are allowed.

An MH Community located in a flood zone with “rising” water that quickly dissipates is
acceptable for purchase by Fannie Mae (as opposed to a MH Community located next to a stream,
river, etc. with the potential for flooding due to “moving” water). Site rent for Manufactured
Homes located in a rising water flood zone can be underwritten if the following conditions are
met:

- the MH Community has an entrance that is not located in the flood zone, or if
  located in the flood zone, would not result in the MH Community being
  inaccessible for an extended time period, not to exceed 5 days;
- the MH Community has no history of flooding;
- the living floor levels of the Manufactured Homes in the flood zone are above the
  base flood elevation, provided, however, Site rent for any Manufactured Home with
  living floor levels within the flood zone elevation can be included if excluding the
  Site rent for such non-compliant Manufactured Homes decreases the underwritten
  DSCR by no more than 10 basis points; and
- the Borrower has notified all Homeowners (or tenants of Borrower-owned
  Manufactured Homes) whose MH Site is located in the flood zone that their MH
  Site is located in a flood zone.

An MH Community located in flood zones with “moving” water is acceptable for purchase
by Fannie Mae only if the following conditions are met:

- the MH Community has an entrance that is not located in the flood zone, or if
  located in the flood zone, would not result in the MH Community being
  inaccessible for an extended time period, not to exceed 5 days;
- the MH Community has no history of flooding;
the Lender’s underwriting is based on the assumption that MH Sites located in a flood zone are considered non-income producing MH Sites; and

the Borrower has notified all Homeowners (or tenants of Borrower-owned Manufactured Homes) whose MH Site is located in the flood zone that their MH Site is located in a flood zone.

Section 603.05. Lease Terms

A. Master Leases

A Master Lease arrangement affecting any of the MH Sites is not acceptable.

B. Residential Leases

Lease terms for MH Sites up to 2 years and month-to-month are permitted. Leases having a term longer than 2 years are allowed when the lease:

- does not contain an option to purchase the MH Home Site;
- provides for:
  - an annual rent increase of not less than 75% of the Consumer Price Index ("CPI");
  - the pass-through of real estate taxes over a base year; and
  - the pass-through of utilities that are provided by the Borrower; and
- cannot result in the Manufactured Home on the leased MH Site being titled as real estate.

C. Security Instrument Modification

A Modification to the Security Instrument reflecting the use of long-term leases must be prepared.

Section 604. Property Insurance (04/29/11)

Any Manufactured Home owned by the Borrower must be insured against loss by fire, and other hazards included within the term “extended coverage”.

Section 605. Survey (07/15/16)

If the Lender elects to obtain an acceptable as-built survey of the Property, such survey must meet the requirements of Part IIIA, Section 325, and the following additional requirements.
Section 605.01. Location of Manufactured Homes and RV Units

The survey shall show only the location or dimensions of individual Manufactured Homes or recreational vehicles and/or the related MH Site, piers and/or foundations that constitute encroachments.

Section 605.02. Public Roadways/Private Interior Roadways and Drives, Etc.

All public roadways must be shown accurately. Except where they constitute encroachments, private interior access roads/streets and drives, parking areas, visible utilities and structures without foundations need not be shown accurately from field measurements, but do need to be sketched onto the survey to show their approximate location. These items can be located by photogrammetric or other approximate methods in lieu of precise field measurements.

Section 605.03. Setbacks

There are two different types of setbacks that must be identified and shown on the survey: (i) setback restrictions shown in documents of record; and (ii) setbacks imposed by applicable zoning ordinances or building codes. The survey must state if such zoning setbacks apply only to the permanent buildings and not the Manufactured Homes. The survey must state recorded references or citations to authority for such zoning setbacks or the reason why this information is not available.

Section 605.04. Encroachments

Encroachments by (i) nonpermanent outbuildings or other structures, or (ii) recreational vehicles that are not set upon a supporting foundation, MH Site, or pier may be shown by a simple indicating mark (i.e., a distinctive mark or symbol identified in the legend), without indicating dimensions.

Section 606. Special Feature Code (10/13/14)

The Lender must use Special Feature Code 414 for MH Community Loans when accessing C&D.

Section 607. Property Income (08/22/16)

Section 607.01. Underwritten Net Cash Flow (Underwritten NCF)

The maximum Underwritten NCF for a Manufactured Housing Community must be calculated as follows, and include the specific income and operating expense line items noted in the loan-sizing spreadsheets, although the Lender is delegated to calculate the Underwritten NCF more conservatively:
### UNDERWRITTEN NET CASH FLOW
(MANUFACTURED HOUSING COMMUNITY)

#### CALCULATION OF INCOME

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<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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<tr>
<td>1</td>
<td></td>
<td><strong>GROSS RENTAL INCOME</strong> - actual MH Site rents in place where Manufactured Homes are installed under leases with residents in occupancy, plus market rents for vacant MH Sites and MH Sites with vacant Manufactured Homes based on a current rent roll (multiplied by 12)</td>
</tr>
<tr>
<td>2</td>
<td>PLUS</td>
<td>To the extent deducted as an operating expense, MH Site rents for other non-revenue MH Sites, such as: MH Sites with model Manufactured Homes deducted in the “model apartment” operating expense in the “general and administrative” category, and actual MH Site rent from employee Manufactured Homes deducted in the “employee” operating expense in the “payroll and benefits” category.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong> <strong>GROSS POTENTIAL RENT (GPR)</strong></td>
</tr>
<tr>
<td>3</td>
<td>MINUS</td>
<td>Physical Vacancy(^1) – (i) market rents for vacant MH Sites based on a current rent roll (multiplied by 12); and (ii) net rental collections for occupied MH Sites where the Manufactured Home is vacant, and the MH Site rent is paid by the MH Community owner, prior occupants, or a third party (e.g., a retail creditor)</td>
</tr>
<tr>
<td>4</td>
<td>MINUS</td>
<td>Concessions (i.e., the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for one or more months, move-in allowance, etc.)(^1)</td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Bad Debt (i.e., the aggregate amount of unpaid rental income due from tenants determined to be uncollectable): include any adjustments to Other Income for Bad Debt(^1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>EQUALS</strong> <strong>NET RENTAL INCOME (NRI)</strong>(^2,3)</td>
</tr>
</tbody>
</table>

\(^1\) The total of Item 3, plus Item 4, plus Item 5 must equal the greater of (i) the difference between the trailing 3-month net rental collections (annualized) and the GPR, or (ii) 5% of GPR. If a rent increase with verified actual collections was instituted within the trailing 3-months, then NRI may be calculated based on the trailing 1-month net rental collections (annualized).

\(^2\) If NRI is greater than the trailing 1-month of actual net rental income (annualized) ("Actual Net Rental Income"), then reduce to Actual Net Rental Income.

\(^3\) The Lender must assess whether there was any decline in NRI as detailed in Part IIIA, Section 311.01, and adjust Underwritten NRI as required.

---

### CALCULATION OF OTHER INCOME
### UNDERWRITTEN NET CASH FLOW
(MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
</table>
| 6    | PLUS     | Actual other income generated through ongoing operations. The income must:  
- be stable;  
- be common in the market;  
- exclude one-time extraordinary non-recurring items;  
and  
- be supported by prior years.  

The Lender must assess the individual month Underwritten Other Income within the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). If there are fluctuations, the Lender may use Underwritten Other Income that exceeds the trailing 3 month Other Income (annualized), as long as the Underwritten Other Income does not exceed the highest 1 month Other Income used in the trailing 3 month Other Income calculation. The Lender must fully support any changes to the Underwritten Other Income. |

### CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable)</td>
</tr>
<tr>
<td>8</td>
<td>MINUS</td>
<td>10% of the actual commercial income</td>
</tr>
</tbody>
</table>
| 9    | PLUS     | Actual average RV Site rental income for the past 3-years  

4 If net Commercial Income is greater than 5% of EGI, then reduce to 5% of EGI.  
5 If the average RV Site rental income is greater than 10% of EGI, then reduce to 10% of EGI. |

10 PLUS Laundry/vending, parking and all other income as detailed in Part IIIA, Section 311.01.  

EQUALS EFFECTIVE GROSS INCOME (EGI) |

### CALCULATION OF OPERATING EXPENSES

<table>
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<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>MINUS</td>
<td>Line-by-line stabilized Property operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included.</td>
</tr>
</tbody>
</table>
The Lender must assess past operating history, the appraiser’s expense analysis, all information available to the Lender (including property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets), and the Borrower’s budget (in the case of an acquisition loan). The Lender should analyze historical operations at the Property and apply an appropriate increase over the prior year’s operations in determining an estimate. If a trend is not applied, the Transaction Approval Memo must provide clear support and justification for stable or declining operating expenses.

<table>
<thead>
<tr>
<th>12</th>
<th>MINUS</th>
<th>Property Management Fee equal to the greatest of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>- 3% of EGI;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- actual Property Management Fee (exclude any portion of a non-arm’s length Property Management Fee that is subordinated to the Mortgage Loan); or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- market Property Management Fee.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>13</th>
<th>MINUS</th>
<th>Real Estate Taxes based on the greatest of:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>- actual future tax bill or bills covering a full calendar year;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- prior full year’s taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- in California, Mortgage Loan amount or assessed value multiplied by the millage rate.</td>
</tr>
</tbody>
</table>

All tax assumptions must consider any automatic reassessment upon acquisition in the next 12 month period. Expenses must include ad valorem taxes for Borrower-owned Manufactured Homes.

<table>
<thead>
<tr>
<th>14</th>
<th>MINUS</th>
<th>Insurance equal to:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>- the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- 110% of the current expense, for insurance policies with a remaining term less than 6 months.</td>
</tr>
</tbody>
</table>

| 15         | MINUS | Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent and all other expenses as detailed in Part IIIA, Section 311.01. |
UNDERWRITTEN NET CASH FLOW  
(MANUFACTURED HOUSING COMMUNITY)

<table>
<thead>
<tr>
<th>EQUALS</th>
<th>UNDERWRITTEN NET OPERATING INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>16</td>
<td>(UNDERWRITTEN NOI)</td>
</tr>
</tbody>
</table>

MINUS Capital Expenditures (Replacement Reserve) as required in Part IIIB, Section 608

EQUALS UNDERWRITTEN NET CASH FLOW  
(UNDERWRITTEN NCF)

Section 607.02. Calculation of Underwritten DSCR

The Lender must calculate Underwritten DSCR as provided in Part IIIA.

Section 608. Determining Replacement Reserve Amount (10/13/14)

The Replacement Reserve for the Property must be based on $25-$50 per MH Site per annum unless the Lender determines that a higher amount is warranted. If the Replacement Reserve is $75 per MH Site or less, the Lender may waive full funding of the Replacement Reserve. The Lender must use Schedule 5 of the Multifamily Mortgage Loan and Security Agreement (Form 6001) and also add Addenda to Schedule 2 (Form 6102.04), when full funding of the Replacement Reserve deposit is waived.
Part IIIB – Underwriting For Special Asset Classes

Chapter 7 – Multifamily Affordable Housing Properties

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Chapter 7 – Multifamily Affordable Housing Properties

Section 701. General (10/13/14)

Section 701.01. General Requirements

A Mortgage Loan secured by a Multifamily Affordable Housing Property (an “MAH Property”) must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

Section 701.02. Lender Eligibility

Due to the unique characteristics of MAH Properties, a Mortgage Loan secured by an MAH Property is not eligible for purchase by Fannie Mae unless the Lender is approved in writing to underwrite MAH Properties.

Section 702. Definition of Multifamily Affordable Housing Property (06/09/14)

An MAH Property is a Property encumbered by a regulatory agreement or recorded restriction (an “Affordable Regulatory Agreement”) that limits rents, imposes maximum income restrictions on tenants, or places other affordability restrictions on the use or occupancy of the MAH Property. While government entities generally impose those restrictions, Borrowers may voluntarily self-impose these restrictions in an attempt to preserve multifamily affordable housing for the future. Rent or income restrictions voluntarily imposed by the Borrower must:

- be placed of record against the Property;
- have a term that exceeds the Maturity Date of the Mortgage Loan; and
- be monitored by the Lender annually for compliance with such restrictions.

An MAH Property must have rent, income and/or occupancy restrictions that meet or exceed 1 of the following requirements.

- ”20% @ 50%”: at least 20% of all units have rent or income restrictions in place such that the rents charged for those units are affordable to households earning no more than 50% of Area Median Income (“AMI”) as adjusted for family size; or
"40% @ 60%": at least 40% of all units have rent or income restrictions in place such that the rents charged for those units are affordable to households earning no more than 60% of AMI as adjusted for family size;

- Section 8 Housing Assistance Payment (“HAP”) contract: at least 20% of all units are subject to a project-based HAP contract; or

- Special Public Purpose: the Property (i) has other rent and/or income restrictions, and (ii) meets a noteworthy special public purpose. Such properties may be considered on a waiver basis for eligibility as an MAH Property.

MAH Properties may also have 1 or more of the following attributes:

- are subject to FHA Risk Sharing;
- are financed using a Credit Enhancement Mortgage Loan;
- receive Low Income Housing Tax Credits (“LIHTC”) under Section 42 of the Internal Revenue Code, and the U.S. Treasury regulations promulgated thereunder, as amended from time to time;
- are subject to inclusionary zoning and/or resale restrictions; and/or
- receive other state, local or federal subsidies which are conditioned on the affordability of some or all of the units in the Property.

Section 703. Property Income and Other Underwriting (07/15/16)

Section 703.01. Underwritten Net Cash Flow (Underwritten NCF)

The maximum Underwritten NCF for an MAH Property must be calculated as follows, and include the specific income and operating expense line items noted in the loan-sizing spreadsheets, although the Lender is delegated to calculate the Underwritten NCF more conservatively:

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>GROSS RENTAL INCOME - the least of the following, as applicable:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- rents permitted under any federal, state, or local subsidy program applicable to the Property, as adjusted for area median income, family size, and</td>
</tr>
</tbody>
</table>
# Underwritten Net Cash Flow

## Multifamily Affordable Property

<table>
<thead>
<tr>
<th>Step</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Underwritten net cash flow number of bedrooms in a unit, and reductions for the applicable utility allowances;</td>
</tr>
<tr>
<td></td>
<td>- rents permitted under any restrictive covenants, subordinate financing requirements, or an Affordable Regulatory Agreement recorded on the Property; or</td>
</tr>
<tr>
<td></td>
<td>- actual rents in place for occupied units, plus the lesser of (i) market rents, or (ii) permitted rents, described above for vacant units based on a current rent roll (multiplied by 12).</td>
</tr>
<tr>
<td></td>
<td>Incremental Section 8 HAP contract income as described in Section 708.1 of this Chapter should be included in Item 1.</td>
</tr>
<tr>
<td>2</td>
<td>PLUS To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the “model apartment” operating expense in the “general and administrative” category, or actual rent from employee units deducted in the “employee” operating expense in the “payroll and benefits” category).</td>
</tr>
<tr>
<td>3</td>
<td>MINUS Physical Vacancy(^1) – applicable actual rents for vacant units and MAH unit type (e.g., “20% @ 50%”, “40% @ 60%”, or specified as being subject to a HAP contract) based on a current rent roll (multiplied by 12).</td>
</tr>
<tr>
<td>4</td>
<td>MINUS Concessions (i.e., the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for one or more months, move-in allowance, etc.)(^1)</td>
</tr>
<tr>
<td>5</td>
<td>MINUS Bad Debt (i.e., the aggregate amount of unpaid rental income due from tenants determined to be uncollectable): include any adjustments to Other Income for Bad Debt(^1)</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong> NET RENTAL INCOME (NRI)(^2)</td>
</tr>
</tbody>
</table>

---

\(^1\) The total of Item 3, plus Item 4, plus Item 5 must equal the greater of (i) the difference between the trailing 3-month net rental collections (annualized) and the GPR, or (ii) 5% of GPR.

\(^2\) The Lender must assess the individual month NRI and adjust Underwritten NRI as required for projected operations and any decline in NRI as detailed in Part IIIA, Section 311.01, footnote 2.
UNDERWRITTEN NET CASH FLOW 
(MULTIFAMILY AFFORDABLE PROPERTY)

CALCULATION OF OTHER INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
</table>
| 6    | PLUS     | Actual other income (except Premiums and Corporate Premiums) generated through ongoing operations. The income must:  
- be stable;  
- be common in the market;  
- exclude one-time extraordinary non-recurring items; and  
- be supported by prior years.  
The Lender must assess the individual month Underwritten Other Income within the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). If there are fluctuations, the Lender may use Underwritten Other Income that exceeds the trailing 3 month Other Income (annualized), as long as the Underwritten Other Income does not exceed the highest 1 month Other Income used in the trailing 3 month Other Income calculation. The Lender must fully support any changes to the Underwritten Other Income.  
In determining the Property other income, the Lender must adjust Items 7 and 8 as shown below, while Item 9 includes examples of specific income that should be included wherever applicable. |

CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable)</td>
</tr>
<tr>
<td>8</td>
<td>MINUS</td>
<td>10% of the actual commercial income</td>
</tr>
</tbody>
</table>

3 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>PLUS</td>
<td>Laundry/vending, parking, and all other income as detailed in Part IIIA, Section 311.01.</td>
</tr>
</tbody>
</table>

EQUALS EFFECTIVE GROSS INCOME (EGI) |

4 If Premiums or Corporate Premiums are applicable for a particular MAH Property, inclusion of Premium income is permitted consistent with the requirements of Part IIIA.
UNDERWRITTEN NET CASH FLOW
(MULTIFAMILY AFFORDABLE PROPERTY)

CALCULATION OF OPERATING EXPENSES

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>MINUS</td>
<td>Line-by-line stabilized Property operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included. The Lender must assess past operating history, the appraiser’s expense analysis, all information available to the Lender (including property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets), and the Borrower’s budget (in the case of an acquisition loan). The Lender should analyze historical operations at the Property and apply an appropriate increase over the prior year’s operations in determining an estimate. If a trend is not applied, the Transaction Approval Memo must provide clear support and justification for stable or declining operating expenses. In determining the Property operating expenses, the Lender must adjust Items 11, 12, and 13 as shown below, while Item 14 includes examples of specific expenses that should be included wherever applicable.</td>
</tr>
<tr>
<td>11</td>
<td>MINUS</td>
<td>Property Management Fee equal to the greatest of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- 4% of EGI 5;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- actual Property Management Fee (exclude any portion of a non-arm’s length Property Management Fee that is subordinated to the Mortgage Loan); or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- market Property Management Fee.</td>
</tr>
<tr>
<td>12</td>
<td>MINUS</td>
<td>Real Estate Taxes based on the greatest of:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- actual future tax bill or bills covering a full calendar year;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- prior full year’s taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- in California, the Mortgage Loan amount or assessed value multiplied by the millage rate.</td>
</tr>
</tbody>
</table>
All tax assumptions must consider any automatic reassessment upon acquisition in the next 12 month period.

A reduced real estate tax payment may be used if the MAH Property has real estate tax abatements, exemptions, or deferrals that will:

- be in effect at closing (or at conversion in the case of a Forward Commitment) per written documentation from the state or local tax assessor; and
- survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit so long as the rent, income, or other restrictions are maintained (i.e., the abatement or exemption is tied to the Property and not the owner).

Such a reduced real estate tax payment may be used for the period that the abatement or deferral is in effect, if an acceptable refinance analysis is completed.

If the abatement term is shorter than the Mortgage Loan term, the Lender should use (i) a bifurcated Mortgage Loan structure (i.e., 2 Notes secured by a single first Lien Security Instrument), (ii) an amortization schedule and loan term that accommodates the elimination of the abatement, or (iii) in the case of an abatement structure that is governed under the California Welfare Tax Exemption Program, the reduced real estate tax payment if the following conditions are met:

- if a refinance, Borrower must be in and remain in compliance with CA Welfare Tax Exemption program;
- if an acquisition (or transfer or assumption where the non-profit entity is changing):
  - Lender must escrow at least 6 months of full real estate taxes at closing which will be released upon confirmation that the CA Welfare
### UNDERWRITTEN NET CASH FLOW
(MULTIFAMILY AFFORDABLE PROPERTY)

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>MINUS</td>
</tr>
<tr>
<td></td>
<td>Insurance equal to:</td>
</tr>
<tr>
<td></td>
<td>- the quoted expense, for insurance policies with a \n  bona fide written quote from a reputable broker for \n  a new 12-month policy; or</td>
</tr>
<tr>
<td></td>
<td>- 110% of the current expense, for insurance policies \n  with a remaining term less than 6 months.</td>
</tr>
<tr>
<td>14</td>
<td>MINUS</td>
</tr>
<tr>
<td></td>
<td>Utilities, water and sewer, repairs and maintenance, \n  payroll and benefits, advertising and marketing, \n  professional fees, general and administrative, ground rent, \n  and all other expenses as detailed in Part IIIA, Section 311.01.</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong> UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)</td>
</tr>
<tr>
<td>15</td>
<td>MINUS</td>
</tr>
<tr>
<td></td>
<td>Capital Expenditures (Replacement Reserve) as required \n  in Part IIIA, Section 318</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong> UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)</td>
</tr>
</tbody>
</table>

5 Minimum Management Fee may be 3.5% of EGI (rather than 4% of EGI) provided that all of the following are met:
- the underwritten Management Fee is at least $300 per unit;
- the actual Management Fee is equal to or less than the underwritten Management Fee; and
- market Management Fees support the underwritten Management Fee for similarly sized properties.

### Section 703.02. Calculation of Underwritten DSCR

The Lender must calculate Underwritten DSCR as provided in Part IIIA.
Section 703.03. Other Underwriting

A. Not-for-Profit Borrower May Be Multi-Asset Borrower

While preferred, a not-for-profit IRC §501(c)(3) Borrower is not required to be a single asset entity. If the not-for-profit Borrower is a multi-asset Borrower, then the Lender must perform detailed underwriting on the Borrower's other assets and general financial condition to determine its acceptability.

B. Appraisal – Determination of Market Value

The following exceptions to the Appraisal requirements of Part IIIA – Base Underwriting Requirements are applicable to MAH Properties.

- The appraiser must determine a market value based on MAH restrictions and actual rents.
- The appraiser must use a market cap rate that does not reflect any upward or downward adjustment for special financing (other than adjusted cap rates for Credit Enhancement Mortgage Loan transactions), tax credit benefits, or any perceived special risks associated with MAH.

Section 704. Properties Subject to Inclusionary Zoning and/or Resale Restrictions (06/09/14)

A Mortgage Loan is acceptable for purchase by Fannie Mae if it is secured by a Property that is subject to any:

- inclusionary zoning or other requirements that restrict the tenants (e.g., to certain income levels or to employees of certain firms or institutions, etc.) to whom units may be rented; or
- resale restrictions (other than rent control resale restrictions).

The impact of any such restrictions must be properly reflected in the Lender's underwriting and addressed in the Transaction Approval Memo. A copy of the applicable laws or regulations affecting the Property must be maintained in the Lender's Servicing File.

Section 705. Additional Debt and Other Encumbrances (07/15/16)

Section 705.01. Subordinate Financing

Subordinate financing is permitted in connection with an MAH Property in accordance with the following criteria.
A. **Interest Rate and Payments**

The subordinate loan must have a fixed rate of interest, and interest must be payable on a current basis, with no deferrals, except as otherwise provided in this Section.

B. **Loan Term**

1. **Subordinate Loan Without a Balloon**

   A fully amortizing subordinate loan may mature at any time relative to the Maturity Date of the Fannie Mae Senior Mortgage Loan or the expiration date of the Fannie Mae Credit Enhancement Instrument.

2. **Any Other Subordinate Loan**

   Any other subordinate loan must not mature prior to the earlier of 90 days after the Maturity Date of the Fannie Mae Senior Mortgage Loan or the expiration date of the Credit Enhancement Instrument provided by Fannie Mae for the Senior Mortgage Loan. As a result, such a subordinate loan may not come due on:
   - the Maturity Date of the Senior Mortgage Loan where a balloon principal payment is due;
   - at the expiration date of any Interest Rate Cap or other Interest Rate Hedge required for a Senior Mortgage Loan; or
   - a remarketing date for a fixed rate Credit Enhancement Instrument subject to remarketing.

C. **Conformance of MAH Mortgage to Subordinate Debt**

If the subordinate loan has recourse to the Borrower, a third party guaranty, or additional collateral, then those same terms must apply to the Senior Mortgage Loan secured by the MAH Property.

D. **Subordinate Lender**

1. **Public/Quasi-Public/Not-for-Profit Lender**

   Subordinate financing provided by a public, quasi-public, or not-for-profit lender may be Soft Financing, or may require mandatory payment of principal and interest, or interest only.
2. **Private Lender**

Subordinate mortgage loans originated by a private, for-profit lender must be Soft Financing, as defined in this Section.

E. **Developer's Notes.**

No commitment by the Borrower to secure repayment of developer advances to the Property or unpaid development fees may be secured by a mortgage on the Property, unless the mortgage loan conforms to the definition of Soft Financing in this Section.

F. **Soft Financing**

“Soft Financing” subordinate debt is debt with all of the following characteristics:

- payments are made only from available Property cash flow remaining following the payment of (i) all amounts due and owing on the Fannie Mae Senior Mortgage Loan, and (ii) all operating expenses for the Property;
- there are no projected accruals of unpaid interest, or accruals will be satisfied from the Net Cash Flow and residuals;
- the subordinate lender has agreed to enter into a new Subordination Agreement with any future first mortgage lender that will refinance any unpaid principal balance on the Senior Mortgage Loan secured by the MAH Property at the end of the Senior Mortgage Loan term; and
- the Borrower must retain a minimum 25% equity share in the cash flow and appreciation of the Property, as determined by the underwriting. For LIHTC properties, if the Note in question is payable to the developer and the developer or entities related to the developer owns or controls more than 50% of the general partner (or equivalent) interest of the Borrower, then this requirement does not apply.

**Section 705.02. General Requirements**

A. **Subordination Agreement**

If the subordinate lender is a governmental entity, then the Lender, the subordinate lender, and the Borrower must enter into the Fannie Mae form Subordination Agreement (Affordable) (Series 6456). Otherwise, the Lender, the Borrower and all subordinate lenders that are not governmental entities must enter into the Fannie Mae form Subordination Agreement (Conventional) (Series 6414).

B. **Title Policy**

The Title policy must reflect the recordation of the Subordination Agreement.
C. Form of Subordinate Loan Documents

The Lender must review the subordinate debt documents on an MAH Property.

Section 706. Restrictive Covenants and Regulatory Agreements (06/09/14)

To be underwritten as an MAH Property, the Lender must confirm that the Affordable Regulatory Agreement restrictions will remain continuously in effect for the term of the Mortgage Loan. The Lender must review the Affordable Regulatory Agreement to identify any provisions that would, on a default of the Borrower, provide a right permitting foreclosure by the aggrieved party that would impair the Lien rights or priority of the Mortgage Loan. If such rights exist in the Affordable Regulatory Agreement, the Mortgage Loan is not acceptable for purchase by Fannie Mae unless a Subordination Agreement is entered into that requires, among other things, a standstill of the exercise of any such remedy.

Section 707. Preservation of Affordable Property (06/09/14)

Section 707.01. Preservation Definition

“Preservation” is the continuation and maintenance of existing rent, income and/or occupancy restrictions on multifamily rental housing that is subject to expiring use restrictions, Section 8 contracts or LIHTC requirements where the Property might otherwise be lost from the affordable housing inventory through conversion to market-rate housing. Generally, any transaction involving a Property with rent or income restrictions on 20% or more of its units that is being refinanced (not including a Mortgage Loan that pays off the initial construction loan) qualifies as an “Affordable Preservation Transaction.”

An Affordable Preservation Transaction is not eligible for purchase by Fannie Mae as an MAH Property if the Property:

- has less than 3 years of rent or income restrictions remaining on the Affordable Regulatory Agreement;
- intends to transition to market rents;
- projects market rents in the refinance analysis.

Affordable Preservation Transactions include, but are not limited to:
- Tax-exempt bonds;
- Section 8 HAP Contracts;
- Rural Housing Service (“RHS”) Section 515 loans;
LIHTC; and

Loans insured under Section 202 or Section 236 of the National Housing Act.

**Section 707.02. Underwriting a Preservation Property**

In determining market rents and expenses of an Affordable Preservation Transaction, the requirements of Chapter 3 of Part IIIA – Base Underwriting Requirements apply with the following modifications.

A. **Appraisal**

When units of the Property are subsidized with a HAP Contract and/or LIHTC, the Appraisal must identify and use mixed-income comparables in the submarket where the Property is located.

B. **Market study**

A market study prepared by a qualified real estate professional, which may be included in the Appraisal, is required where more than 20% of the units have a project-based HAP Contract or LIHTC to identify an absorption rate and rent level for the submarket.

C. **Restabilization Reserve.**

A restabilization reserve is required for all Mortgage Loans secured by an MAH Property except when the HAP Contract term (disregarding any annual or other incremental governmental appropriation conditions) exceeds the Mortgage Loan term. To appropriately size the required restabilization reserve, the Lender must determine:

- if the HAP Contract will be renewed at its expiration and whether the affected units will be rented at the lower of market rents or the applicable restricted rents; and

- a reasonable lease-up rate and arrive at the number of months of leasing projected to achieve stabilized occupancy as underwritten based on a market study.

The restabilization reserve must:

- equal the greater of (i) the amount indicated by this analysis, or (ii) 6 months of principal and interest payments on the Mortgage Loan; and

- remain in place until the Property achieves underwritten occupancy for 90 days at market rate rents.
Section 708. Underwriting and Processing Issues for All HAP Contract Properties (07/15/16)

Section 708.01. Underwriting Options for Properties With Both HAP Contracts and LIHTC Units

Lenders may elect to structure either a Mortgage Loan secured by an MAH Property or a Credit Enhancement Mortgage Loan for a Property that has both HAP Contracts and LIHTC units by using either of the following options.

- **Option 1:** Underwrite the rents from units covered by the HAP Contract using the lowest of market rents, HAP Contract rents, or applicable LIHTC rents.
- **Option 2:** Underwrite the rents from units covered by the HAP Contract using the additional HAP Contract income that is above the LIHTC rents (“HAP Overage”) provided that the HAP Contract rents are less than market rents. In the event that the HAP Contract expires prior to the Maturity Date of the Mortgage Loan, the Underwritten DSCR must be greater than or equal to 1.05 based upon the LIHTC rents; and, upon expiration of the HAP Contract, the Property must have an Underwritten DSCR greater than or equal to 1.10 based upon the LIHTC rents.

The Lender may elect to eliminate the restabilization reserve under either option. However, the Lender may not elect to use Option 2 or eliminate the restabilization reserve unless all of the following requirements are met:

- all LIHTC rents are at least 10% below market;
- the MAH Property is located in a market or submarket with 90% or greater economic occupancy);
- the sponsor is experienced and successful in owning and operating properties with HAP Contracts; and
- the Borrower certifies that it will exercise all options for HAP Contract extensions provided that the renewal rents are no lower than the lesser of (i) the current HAP Contract rents, or (ii) the LIHTC maximum rents.

Section 708.02. Cash Out Financing is Allowed

Cash out financing is allowed only to the extent that:

- an adequate Replacement Reserve is fully funded (i.e., funded such that the combination of upfront deposits and the scheduled monthly deposits into the Replacement Reserve are sufficient to cover all of the replacement needs identified in the Physical Condition Assessment (“PCA”)); and
- anticipated increases in the HAP Contract are consistent with market increases as evidenced by a rent comparability study.
Section 708.03. HAP Contract Review Sheet

The Lender must:

- complete the Section 8 Housing Assistance Payments ("HAP") Contract Review Sheet and Certification (Form 6422); and
- confirm that all conditions to approval of the Section 8 Housing Assistance Payments ("HAP") Contract Review Sheet and Certification (Form 6422) have been met before the Mortgage Loan is delivered to Fannie Mae.

Section 709. Refinancing Section 236 Properties - Interest Reduction Payment is Maintained (07/15/16)

If the Borrower elects to preserve the Interest Reduction Payment ("IRP") by either (i) assuming the obligations under the original Section 236 note and mortgage, and adding additional debt which will “wrap” the original Section 236 note and mortgage, or (ii) "decoupling" the IRP from the existing Section 236 note and mortgage by prepaying the existing Section 236 note, and having the IRP transferred to a new Mortgage Loan (which will be then considered a Section 236 loan for purposes of continuing the IRP), then Fannie Mae will consider the following treatments of the cash flow from the IRP.

Section 709.01. No Additional Proceeds

If the Borrower is not seeking additional proceeds, the Lender must exclude the amount of the IRP when calculating LTV and Underwritten DSCR.

Section 709.02. Additional Proceeds from Mortgage Loan

If the Borrower is seeking additional proceeds from the Mortgage Loan based on the IRP, then:

- the Mortgage Loan must have equal monthly payments of principal and interest;
- the portion of the Mortgage Loan sized on the basis of Underwritten NCF must meet Fannie Mae's existing LTV and Underwritten DSCR requirements without considering the IRP cash flow;
- the portion of the Mortgage Loan sized on the basis of the IRP cash flow must have at least an Underwritten DSCR of 1.00; and
- the financing structure must reflect the remaining term of the IRP through a bifurcated note or amortization structure.
In a forward transaction, if the original Section 236 loan is being wrapped by the Mortgage Loan, the IRP portion of the Mortgage Loan must continue to amortize during the construction phase. If the IRP is decoupled from the original Section 236 loan, no principal amortization is required during the construction phase.

Section 709.03. Additional Proceeds From Other Sources

If the Borrower is seeking additional proceeds from sources other than the Mortgage Loan based on the IRP, the Lender must factor such debt into the overall LTV for the Property and must meet the requirements for subordinate financing provided in Section 705.

Section 710. LIHTC Properties - Lender Equity Interest (06/09/14)

Fannie Mae will purchase a Mortgage Loan secured by Property with LIHTC where the Lender is an equity investor (directly or indirectly) in the Borrower, provided that the requirements of this Section are met.

Section 710.01. Lender's Equity Interest

The Lender's equity interest in the Property (direct or indirect), if any, may not exceed 20%, and the Lender and the equity syndicator must be organized to assure that independent analysis and decision making occurs throughout the underwriting and approval of the debt and the equity investments, as well as the servicing of the Mortgage Loan.

Section 710.02. Subordinate Debt.

If there is any subordinate debt on the Property, the subordinate lien holder must agree to the following minimum terms and conditions:

- payments on the subordinate debt are limited to cash remaining following the payment of (i) all amounts due and owing on the Fannie Mae Senior Mortgage Loan, and (ii) all operating expenses for the Property;
- its entering into a new Subordination Agreement with any future first mortgage lender that will refinance any UPB at the end of the Mortgage Loan term; which new Subordination Agreement shall also subordinate the subordinate lien holder to any costs incurred by Fannie Mae’s Special Asset Management Team if the Mortgage Loan was in default prior to being refinanced;
- the waiver of the subordinate lien holder’s right to assert any legal claims for equitable subordination against Fannie Mae and the Lender; and
the waiver of the subordinate lien holder’s right of foreclosure for monetary defaults during the term of the Mortgage Loan (although foreclosure for fraud and other exceptions will be allowed).

Section 711. FHA Risk Sharing (10/13/14)

Section 711.01. Introduction

Fannie Mae and HUD are parties to a risk sharing agreement under which they have agreed to share risk on Mortgage Loans for certain MAH transactions. HUD’s risk sharing is in the form of mortgage insurance from the Federal Housing Administration (“FHA”). There are two FHA Risk Sharing executions: “Standard FHA Risk Sharing” and “Green Preservation Plus”. Under Standard FHA Risk Sharing, HUD takes 50% of the risk of loss, and the remaining 50% of the loss is shared by Fannie Mae and the Lender. Under Green Preservation Plus, HUD takes a first loss position equal to 4.35% of the UPB of the Mortgage Loan, with any further losses shared in accordance with Standard FHA Risk Sharing.

Section 711.02. Eligibility

A. Lenders

Lenders must meet the eligibility requirements set forth in Section 701 of this Chapter. In addition, any Lender that has committed acts which HUD has determined are grounds for administrative action is ineligible to deliver a Mortgage Loan for purchase by Fannie Mae under either Standard FHA Risk Sharing or Green Preservation Plus.

B. Borrowers, Key Principals and Principals

The Lender must confirm compliance with federal ineligible borrower guidelines that the Borrower, and each Key Principal and Principal of the Borrower are not precluded from participation in the transaction based upon the most current “List of Parties Excluded from Federal Procurement or Nonprocurement Programs”. Confirmation of the Lender’s compliance with this requirement must be included in the Transaction Approval Memo.

C. General

All FHA Risk Sharing Mortgage Loans must be fixed rate with no interest-only period.

The minimum loan term is:

- 15 years for Standard FHA Risk Sharing; and
- 10 years for Green Preservation Plus.
A Property must qualify as an MAH Property under the (i) “20% @ 50%”, (ii) “40% @ 60%”, or (iii) Section 8 HAP contract requirements set out in Section 702 of this Chapter, and such rent, income and/or occupancy restrictions must remain in effect for at least the term of the Mortgage Loan. For MAH Properties with remaining affordability restrictions of less than 18 years, the affordability restrictions will be deemed to be senior to the lien of the Mortgage Loan for purposes of enforcing the restrictions.

Section 711.03. Green Preservation Plus; PCA Requirements

Green Preservation Plus is designed to encourage the renovation of existing MAH Properties and incorporate energy and water efficiency measures. To support the modified underwriting terms for Green Preservation Plus, the Borrower must use at least 5% of the original principal balance of the Mortgage Loan for either:

- renovations recommended by a PCA with a High Performance Building Module (“HPB Module”); or
- energy and water efficiency improvements recommended by a PCA with an HPB Module.

Green Preservation Plus is intended for Properties that will undergo no more than moderate, non-structural renovation, with all renovations occurring while tenants remain in place. Any questions regarding the level or scope of renovation should be directed to the Fannie Mae Deal Team.

A. PCA Requirements

A PCA with an HPB Module must be obtained by the Lender for all Green Preservation Plus Mortgage Loans, provided that for Properties with 50 units or less, the HPB Module may be waived by the Lender, if the Lender determines that the estimated cost of other mandatory renovations under a standard PCA will equal or exceed 5% of the original principal balance of the Mortgage Loan. Notwithstanding any other provision of the Guide to the contrary, the Lender may elect to pay any cost of a PCA with an HPB Module that exceeds $8,000.

For additional information on the PCA and HPB Module requirements, see Part IIIA, Section 316 and the PCA Instructions to the Property Evaluator (Form 4099).

B. Improvements

The required renovations and/or energy and water efficiency retro-fitting for Green Preservation Plus Mortgage Loans may have occurred up to 3 months before, but not later than 12 months after, the closing of the Mortgage Loan. Work that has been or will be completed prior to closing of the Mortgage Loan must be described in the Transaction Approval Memo. For any work that has not been completed prior to closing, the Lender must hold the funds in the Completion/Repair Escrow pending completion.
C. Special Feature Code

Lenders must use Special Feature Code 810: “Multifamily Green Preservation Plus”, when committing a Green Preservation Plus Mortgage Loan in C&D.

Section 711.04. Underwriting and Execution

Cash, MBS and Credit Enhancement Mortgage Loan executions are available for Standard FHA Risk Sharing transactions. However, only Cash and MBS executions are available for Green Preservation Plus. The following are not eligible for Green Preservation Plus:

- Properties utilizing the Forward Commitment execution; or
- Properties receiving new LIHTC allocations.

Section 711.05. Cash Out

Green Preservation Plus Mortgage Loans limit the amount of “cash out” that the Borrower may obtain in connection with the transaction. Cash out proceeds to the Borrower cannot exceed the amount of funds identified for energy and water-saving renovations. The Lender must identify include both the amount of cash out (if any) and the dollar amount of the energy and water-saving renovations financed using the Green Preservation Plus Mortgage Loan in the Transaction Approval Memo.

There is no limitation on cash out for Standard FHA Risk Sharing transactions. However, for HUD data collection purposes, the Lender must identify in C&D, under “Loan Details” on the Loan Page, the amount of cash out, if any.

Section 711.06. Mortgage Insurance Premium

Pricing for a Standard FHA Risk Sharing Mortgage Loan or a Green Preservation Plus Mortgage Loan will include an amount sufficient to pay the mortgage insurance premium due to FHA as it becomes due, and Fannie Mae will make the FHA premium payment on or before its applicable due date.

Section 711.07. Process for Reservation and Allocation of FHA Units

Before obtaining a Commitment from Fannie Mae, the Lender must initially reserve units with Fannie Mae for each Property to be financed with a Standard FHA Risk Sharing Mortgage Loan or a Green Preservation Plus Mortgage Loan by performing the following steps.
A. Written Request to Reserve Units

The Lender must send a written request to reserve units to the Fannie Mae Deal Team. The request must include a cover letter along with the Fannie Mae/FHA Pre-Application for a Reservation of Risk Sharing Units (Form 4670).

B. Confirmation of Reservation

Fannie Mae will confirm in writing the reservation of units and the proposed Mortgage Loan amount. The unit reservation will be valid for 120 days (except for Standard FHA Risk Sharing with a Forward Commitment for which the unit reservation will be valid for the period specified in the Forward Commitment). Any variance in the number of units, or change in the Mortgage Loan amount referenced in the initial reservation letter must be approved in writing by Fannie Mae prior to the issuance of a Fannie Mae Commitment.

C. Mortgage Loan Delivery Package

The Lender must deliver the completed Mortgage Loan Delivery Package to the Document Delivery Facility by the earlier of (i) the reservation expiration date, or (ii) the Commitment expiration date. For each Mortgage Loan with FHA Risk Sharing (including Green Preservation Plus), the Borrower must execute the following additional Loan Documents:

- Modifications to the Multifamily Loan and Security Agreement (FHA Risk Sharing Mortgage Loans) (Form 6205);
- Modifications to Security Instrument (FHA Risk Sharing Mortgage Loans) (Form 6316); and
- Borrower’s Certificate (Multifamily Affordable Housing/FHA Risk Sharing Mortgage Loans) (Form 6410).

The Lender must also complete and deliver the FHA Risk Sharing Request Data Sheet (Form 4674), and a Modified Risk Supplement (Form 4575.FHA series), if applicable. In addition, the Lender should refer to the Multifamily Mortgage Loan Delivery Package Table of Contents (Form 6502) for a complete list of the applicable delivery requirements.

Section 711.08 Subsidy Layering Review

Federal law requires HUD to perform a subsidy layering review when there is a possibility that more than 1 source of federal, state, or local governmental assistance may fund a transaction. Please see Fannie Mae/FHA Risk Sharing Subsidy Layering Information (Form 4672), for additional guidance and worksheets.

A subsidy layering review is required if the transaction:

- will be utilizing new LIHTC;
- has existing LIHTC that are still generating positive tax benefits (i.e., during the 10 year period after being placed in service);
- is receiving new federal, state or local capital resources (e.g., HOME funds);
- has a Section 8 HAP Contract; or
- has an IRP contract as a former HUD Section 236 property.

A subsidy layering review is not required if the transaction:
- does not have LIHTC; or
- has LIHTC that are no longer generating positive tax credits and does not have any of the other subsidies listed above.

HUD has delegated the subsidy layering review for new LIHTC transactions to state housing credit agencies that agree to take on such responsibility. In most jurisdictions the responsible agency is the same agency that allocates tax credits. For (i) Properties located in states in which the state housing credit agency has not agreed to administer the subsidy layering review function for new LIHTC transactions, and (ii) other transaction types that require a subsidy layering review, HUD will perform the subsidy layering review. For transactions where HUD will be performing the subsidy layering review, the subsidy layering package should be delivered electronically to: FHA_RiskSharing@fanniemae.com, and Fannie Mae will submit the package to HUD.

After the subsidy layering review is completed, the applicable reviewing office will issue a certification to the Borrower indicating whether the total amount of governmental assistance exceeds that required for Property feasibility. The certification must be issued prior to the release of the preliminary official statement for tax-exempt bond financed transactions, and prior to the Lender’s obtaining a Commitment.

**Section 711.09 Lender FHA Risk Sharing Reserve and Loss Sharing Modifications**

If a Mortgage Loan has been approved for participation in standard FHA Risk Sharing or Green Preservation Plus, the Lender’s reserve and loss sharing obligations may be reduced as provided in either the applicable Modified Risk Supplement (Form 4575.FHA series) or the Mortgage Loan Certificate. The applicable form must be included by the Lender in the Mortgage Loan Delivery Package.

**Section 712. Committing and Delivery (06/09/14)**

If a Property will have rent, income and/or occupancy restrictions in place at the time the Mortgage Loan is purchased by Fannie Mae, the Lender must indicate the “MAH type” for the Mortgage Loan in C&D under “Other Attributes”, even if the Property cannot be underwritten as
an MAH Property (including an Affordable Preservation Transaction) because the Property has less than 3 years of rent or income restrictions remaining on the Affordable Regulatory Agreement.
Part IIIB – Underwriting For Special Asset Classes

Chapter 8 – Cooperative Properties

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Chapter 8 – Cooperative Properties

Section 801. General (07/15/16)

Section 801.01. General Requirements

A Mortgage Loan secured by a lien on a multifamily residential property owned by a corporation or other legal entity (a “Cooperative Organization”) in which each shareholder or equity owner in such Cooperative Organization is granted the right to occupy a unit or units in the Property (a “Cooperative Property”) under a proprietary lease or other occupancy agreement, is eligible for purchase by Fannie Mae.

A Mortgage Loan secured by a Cooperative Property must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

Section 801.02. Definitions

When used in this Guide, the following capitalized terms have the meanings set forth below.

- “Actual Cooperative Property Basis” shall mean, with regard to any financial analysis or valuation of the Cooperative Property, such financial analysis or valuation being conducted based on the actual operating performance of the Cooperative Property.
- “Cooperative Gross Sellout Value” shall mean a value based upon the sum of the gross sales prices of all units (subject to discounts on rent restricted units) plus the aggregate unpaid principal balance of all Mortgage Loans secured by a lien on the Cooperative Property.
- “Cooperative Maintenance Fee” shall mean the periodic (typically, monthly) fee assessed to each shareholder or owner of the Cooperative Organization to fund costs and expenses associated with on-going operations of the Cooperative Property, which expenses may include mortgage debt service, real estate taxes, water and sewer fees, fuel costs, utilities for the common areas, employee salaries, insurance and any other operational expenses, or to build reserves.
■ “Cooperative Maintenance Fee Accounts Receivable” shall mean Cooperative Maintenance Fees due the Cooperative Organization that are more than 30 days past due.

■ “Cooperative Market Rental Basis” shall mean, with regard to any financial analysis or valuation of the Cooperative Property, such financial analysis or valuation being conducted as if the subject Cooperative Property were being operated as a conventional multifamily property subject to applicable rental restrictions, if any.

■ “Cooperative Operating Reserve” shall mean liquid funds, including loan proceeds, established under the control of the Cooperative Organization to cover operating and capital expenses. Such funds shall be comprised of unrestricted cash, less the sum of accounts payable.

■ “Cooperative Property Sponsor” shall mean any Person that has invested in, converted, or is converting a residential rental apartment building to a Cooperative Property and that continues to own unsold shares in the Cooperative Organization.

■ “Limited Equity Cooperative Property” shall mean a Cooperative Organization that has income, rent, or equity build-up restriction (not including any transfer taxes), which restriction may be dictated by a governmental entity, a third party capital provider, or pursuant to the Limited Equity Cooperative Property’s own organizational documents.

Section 802. Eligible Mortgage Loans (07/15/16)

The Lender must examine the organizational documents of the Cooperative Organization. The terms of the organizational documents must not prohibit the Lender from underwriting or making the Mortgage Loan secured by the Cooperative Property in accordance with all applicable requirements of this Guide. The Lender shall also review the composition and experience of the Cooperative Organization’s Board of Directors or managers.

In addition, for any Mortgage Loan secured by a Lien on a Cooperative Property:

■ The Mortgage Loan must be a fixed rate Mortgage Loan.

■ If the Cooperative Organization is the lessee under a Ground Lease, it is not required to establish an escrow with the Lender for payments due under any Ground Lease.

■ The Residential Occupancy Requirements set forth in Part IIIA, Section 313 and the Occupancy Requirements set forth in Part IIIB, Section 904 are not applicable.

■ The determination of whether any Commercial Lease is a Material Commercial Lease, as defined in Part IIIA – Base Underwriting Requirements of this Guide, shall be based on 5% or more of total gross income calculated on a Cooperative Market Rental Basis.
Identification of a Key Principal or Principal and the related analysis or obligations as described in Part IIIA, Chapter 4 or Part IIIB, Chapter 9 does not apply to a Borrower which is a Cooperative Organization, unless otherwise stated herein.

The Cooperative Property is located in a Cooperative Property Eligible Market.

The Lender must have reviewed at least 3 years of the Cooperative Property’s financial operations.

The Cooperative Property financial operations must have achieved at least a 0.90X Debt Service Coverage Ratio (“DSCR”) on an Actual Cooperative Property Basis for 2 of the previous 3 years.

No single Cooperative Property Sponsor may own shares or ownership interests in the Cooperative Organization which would permit such Cooperative Property Sponsor to occupy or lease more than 40% of the units in the Cooperative Property, unless all of the following criteria are met:

- Such Cooperative Property Sponsor’s financial strength, experience, qualifications, character and credit history must be underwritten in accordance with the underwriting standards for Key Principals as set forth in Part IIIA, Chapter 4 or Part IIIB, Chapter 9, whichever is applicable, and deemed acceptable;
- The Cooperative Organization consistently demonstrates sound financial operations and market acceptability, and no litigation is on-going between the Cooperative Organization and the Cooperative Sponsor; and
- Aggregate annual rental income from all such Cooperative Property Sponsor-owned units exceeds the aggregate annual Cooperative Maintenance Fees on such units.

Experienced professional property management is in place. Such property management firm must currently be managing at least:

- Three other Cooperative Properties in the same market as the subject Cooperative Property;
- A minimum of 350 Cooperative Property units in the aggregate among all Cooperative Properties under management; and
- One other Cooperative Property as large as the Borrower.

However, for Small Mortgage Loans, the property management firm criteria stated above shall not apply. Rather, such property management firm shall have at least 3 years of experience with a Cooperative Property of similar size as the Borrower. The determination of similar size shall be in accordance with the property management unit range cited in Part IIIB, Chapter 9. For Small Mortgage Loans secured by a Cooperative Property with 25 units or less, the Cooperative Property may be managed by the Borrower.
Overall Property condition rating of the Cooperative Property must be a “2” or better, as shown on the Comprehensive Assessment Addendum ("Comp Assmt Addendum") tab of the MBA Master Inspection Form.

Any increase in the total annual scheduled Cooperative Maintenance Fees shall not exceed 10%. Any Cooperative Maintenance Fee increase must be approved by the Cooperative Organization’s Board of Directors, managers or other appropriate authority prior to closing.

For any Mortgage Loan secured by a Cooperative Property, the Borrower shall execute all additional Loan Documents required for Cooperative Properties.

Section 803. Special Underwriting Considerations (07/15/16)

Section 803.01. Financial Operation

Lender must examine the year-to-date operational budget. For each of the Cooperative Property’s last 3 years of operations, the Lender shall:

- collect, review, and present the audited financial/operating statements;
- review the level of Cooperative Maintenance Fee Accounts Receivable as a percentage of total annual Cooperative Maintenance Fees, of which the average of the last 3 years must not exceed 3%; and
- review the level of the Cooperative Operating Reserve, which must be at least 10% of annual Cooperative Maintenance Fees at closing.

Section 803.02. Property Valuation

Lender must obtain an appraisal in accordance with Part IIIA, Chapter 3 that provides a value of the Cooperative Property on both:

- a Cooperative Market Rental Basis, with such value being used to determine the Loan to Value (“LTV”) ratio in accordance with the Multifamily Underwriting Standards, and
- a Cooperative Gross Sellout Value basis.

Section 803.03. Subordinate Debt

Any existing debt secured by a Lien on the Cooperative Property must be approved by Fannie Mae and fully subordinated to the Mortgage Loan as required by Part IIIC, Section 204. If approved, the Subordinate Mortgage Loan must be included in the calculation of the Underwritten Debt Service Coverage Ratio as provided in Section 804.02 and the Actual Cooperative Debt Service Coverage Ratio as provided in Section 804.04.
Section 804. Cooperative Property Income Analysis (07/15/16)

The Lender must prepare, review, and present both of the following NCF calculations: (i) Cooperative Market Rental Basis, and (ii) Actual Cooperative Property Basis.

Section 804.01. Cooperative Market Rental Basis Net Operating Cash Flow (Underwritten NCF)

The Cooperative Property’s projected operations must be reviewed on a Cooperative Market Rental Basis as reflected in the Appraisal. The Cooperative Market Rental Basis NCF must include minimum economic vacancy and Replacement Reserve per unit, if any, as set forth in the Underwritten NCF calculation detailed in Part IIIA, Chapter 3 or Part IIIB, as applicable.

Section 804.02. Calculation of the Cooperative Market Rental Basis Debt Service Coverage Ratio (Underwritten DSCR)

The Lender must calculate Underwritten DSCR as follows:

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>1</td>
<td>UNDERWRITTEN NCF as calculated on a Market Rental Basis</td>
<td></td>
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<tr>
<td>2</td>
<td>DIVIDED BY Annual debt service for the Mortgage Loan amount. Debt service must be based on a level debt service payment with an Amortization term pursuant to the Multifamily Underwriting Standards, or other Amortization term approved by Fannie Mae, and the higher of:</td>
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<td></td>
<td></td>
<td>■ the actual note rate; or</td>
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<td>■ the required Underwriting Interest Rate Floor; and</td>
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<tr>
<td></td>
<td></td>
<td>■ if Fannie Mae pre-approves subordinate debt as provided in Section 803.03, the annual debt service must also include principal and interest to cover the maximum principal amount of the subordinate debt outstanding.</td>
</tr>
</tbody>
</table>

Section 804.03. Cooperative Property Net Cash Flow (Actual Cooperative Property NCF)

The maximum Actual Cooperative Property NCF must be calculated as follows, and include the specific income and operating expense line items noted in the loan-sizing spreadsheets,
although the Lender is delegated to calculate the Actual Cooperative Property NCF more conservatively:

### ACTUAL COOPERATIVE PROPERTY NET CASH FLOW

**CALCULATION OF INCOME**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>1</td>
<td><strong>GROSS RENTAL INCOME</strong> – current scheduled monthly Cooperative Maintenance Fees for all units (multiplied by 12)</td>
<td></td>
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<tr>
<td>2</td>
<td>PLUS</td>
<td>Income from Cooperative Organization-owned units equal to the lesser of (i) actual rents in place for occupied units, plus market rents for vacant units, or (ii) an equivalent Cooperative Maintenance Fee based on similar units in the subject Cooperative Property (multiplied by 12)</td>
</tr>
<tr>
<td>3</td>
<td>PLUS</td>
<td>Proposed increase in annual Cooperative Maintenance Fee income</td>
</tr>
<tr>
<td></td>
<td><strong>EQUALS</strong></td>
<td><strong>GROSS POTENTIAL RENT (GPR)</strong></td>
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<tr>
<td>4</td>
<td>MINUS</td>
<td>Vacancy – included at Fannie Mae’s sole discretion for any Mortgage Loan which is Pre-Review or requires a waiver to any Guide requirement.</td>
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<tr>
<td></td>
<td><strong>EQUALS</strong></td>
<td><strong>NET RENTAL INCOME (NRI)</strong></td>
</tr>
</tbody>
</table>

**CALCULATION OF OTHER INCOME**

<table>
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<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>5</td>
<td>PLUS</td>
<td>Actual other income (including any flip fees, sales fees, or any special assessments collected for operational expenses) as set forth in the Underwritten NCF calculation detailed in Part IIIA, Chapter 3, or Part IIIB, Chapter 9, as applicable.</td>
</tr>
</tbody>
</table>

**CALCULATION OF COMMERCIAL INCOME**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>6</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable)</td>
</tr>
<tr>
<td>7</td>
<td>MINUS</td>
<td>Commercial Income Economic Vacancy – included at Fannie Mae’s sole discretion for any Mortgage Loan which is Pre-Review or requires a waiver to any Guide requirement.</td>
</tr>
</tbody>
</table>

1 If net commercial income is greater than 20% of EGI on a Cooperative Market Rental Basis, then reduce to 20% of EGI on a Cooperative Market Rental Basis.

**EQUALS** EFFECTIVE GROSS INCOME (EGI)
### ACTUAL COOPERATIVE PROPERTY NET CASH FLOW

#### CALCULATION OF OPERATING EXPENSES

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
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| 8    | MINUS    | Line-by-line stabilized Cooperative Property operating expenses. Stabilized operating expenses are the expenses during normal ongoing Cooperative Property operations, not affected by short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included. Actual operating expenses may be based on the Lender’s review of the following:  
- historical operations;  
- market expenses;  
- actual service contracts in place; or  
- Cooperative Property’s budget. |
| 9    | MINUS    | Real Estate Taxes based on the greatest of:  
- actual future tax bill or bills covering a full calendar year;  
- prior full year’s taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or  
- in California, the Mortgage Loan amount or assessed value multiplied by the millage rate.  
A reduced real estate tax payment may be used if the Property has real estate tax abatements, exemptions, or deferrals that will:  
- be in effect at closing, per written documentation from the state or local tax assessor; and  
- survive a foreclosure of the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit (i.e., it is tied to the Property and not the owner).  
Such a reduced real estate tax payment may be used for the period that the abatement or deferral is in effect if an acceptable refinance analysis is completed. If the abatement term is shorter than the Mortgage Loan term, the Lender should consider a bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument), an amortization schedule that accommodates the elimination of the abatement, or |
## ACTUAL COOPERATIVE PROPERTY NET CASH FLOW

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<tbody>
<tr>
<td></td>
<td>ACTUAL COOPERATIVE PROPERTY NET CASH FLOW</td>
<td>provide clear justification and support in the refinance analysis.</td>
</tr>
<tr>
<td>10</td>
<td>MINUS</td>
<td>All other expenses as set forth in the Underwritten NCF calculation detailed in Part IIIA, Chapter 3, or Part IIIB, Chapter 9, except for Property insurance and management fees.</td>
</tr>
<tr>
<td>11</td>
<td>MINUS</td>
<td>Capital Expenditures (Replacement Reserve) – included at Fannie Mae’s sole discretion for any Mortgage Loan which is Pre-Review or requires a waiver to any Guide requirement.</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)</td>
</tr>
<tr>
<td></td>
<td>EQUALS</td>
<td>ACTUAL COOPERATIVE PROPERTY NET CASH FLOW (ACTUAL COOPERATIVE NCF)</td>
</tr>
</tbody>
</table>

### Section 804.04. Calculation of the Actual Cooperative Property Debt Service Coverage Ratio (Actual Cooperative Property DSCR)

The Lender must calculate the Actual Cooperative Property DSCR as follows:

## ACTUAL COOPERATIVE PROPERTY DSCR

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ACTUAL COOPERATIVE NCF</td>
<td>as calculated in Section 804.03</td>
</tr>
<tr>
<td>2</td>
<td>DIVIDED BY</td>
<td>Annual debt service for the Mortgage Loan amount. Debt service must be based on a level debt service payment at the actual Gross Note Rate with an Amortization term pursuant to the Multifamily Underwriting Standards, or other Amortization term approved by Fannie Mae. If Fannie Mae pre-approves subordinate debt as provided in Section 803.03, the annual debt service must also include principal and interest to cover the actual loan balance of such subordinate debt outstanding at the time of underwriting. Interest-only payments may only be used for a full term interest-only Mortgage Loan.</td>
</tr>
</tbody>
</table>
Section 805. Limited Equity Cooperative Properties (07/15/16)

All of the foregoing requirements in this Chapter apply to Limited Equity Cooperative Properties, as well as the following additional requirements:

- Property Valuation: If any use restrictions or equivalent is in place or of record, an analysis of the valuation of the Cooperative Property as determined on a Cooperative Gross Sellout Value basis is not required.

- Cooperative Maintenance Fees:
  - Monthly Cooperative Maintenance Fees can be no more than 90% of comparable unit market rents; and
  - If HUD or other restrictions are in place, all Cooperative Maintenance Fee increases must be approved by the Limited Equity Cooperative Property’s Board of Directors, managers or other appropriate authority and by HUD prior to the Commitment Date.

- Replacement Reserve: The Lender shall underwrite the greater of (i) the Physical Condition Assessment (“PCA”) recommended reserves or (ii) $250/unit/year.

- Cooperative Operating Reserve: The Lender shall hold a minimum of 6 months payments of principal and interest on the Mortgage Loan. If a similar reserve is held by another independent lender, this may be applied towards this minimum requirement, provided those funds are released to the Lender.

- HUD Interest Reduction Payment (“IRP”) loans: The Lender must hold an IRP reserve equal to 2 months of IRP payments for the life of the IRP loan. These funds are to be used to compensate for late IRP payments.

- Cooperative Property Underwritten NCF for a Mortgage Loan secured by a Limited Equity Cooperative Property shall follow the Cooperative Property Underwritten NCF calculation as required in the Multifamily Analysis of Operations (Form 4254) with the following exceptions:
  - Economic vacancy: the greater of (i) 5% or (ii) the highest level experienced by the Limited Equity Cooperative Property over the last 3 years.
  - Actual operating expenses: 103% of the previous year operating expenses (the 3% trending is not required for trailing 12-month or year-to-date annualized operating expenses).
  - Replacement Reserve: greater of (i) the scheduled Replacement Reserve per unit (inflated) as determined by a PCA or (ii) $250/unit/year.

- Unit Turnover, as determined by any unit whose shareholder or tenant chooses to vacate or terminate the lease for such unit, and the total of which must not exceed 20% per annum in any of the last 3 years.
- Escrows: Monthly deposits for real estate taxes, insurance premiums and Replacement Reserve are required.
- Cooperative Property Sponsor owned units are not allowed.
- Property management experience: The property management company must have Limited Equity Cooperative Property management experience. Additionally, if HUD restrictions are in-place, the property management firm must have a history of successfully complying with HUD restrictions and reporting requirements.
# Part IIIB – Underwriting For Special Asset Classes

## Chapter 9 – Small Mortgage Loans

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Chapter 9 – Small Mortgage Loans

Section 901. General (08/28/17)

Section 901.01. Definition

A “Small Mortgage Loan” is any Mortgage Loan which is:

- in an amount less than or equal to:
  - $3,000,000; or
  - $5,000,000, if the Mortgage Loan is secured by a Property located in an MSA designated as an “Eligible MSA” in the Multifamily Underwriting Standards; and
- underwritten pursuant to the requirements set forth in this Chapter.

Section 901.02. Underwriting Requirement

For DUS Lenders, Small Mortgage Loans must meet all of the applicable requirements of either:

- Part III and the Multifamily Underwriting Standards for non-Small Mortgage Loans, or
- Part III, unless any standard or requirement is expressly modified by this Chapter, the Multifamily Underwriting Standards, and the additional requirements provided in this Chapter.

Except as noted, the DUS Lender may not combine the requirements of both (i) and (ii) above. If the Lender elects (i) above, then none of the provisions of this Chapter 9 apply. If the DUS Lender elects (ii) above, then all of the provisions of this Chapter 9 apply and, in the event of a conflict between the requirements of this Chapter and the requirements regarding a similar subject contained in Part III, the requirements of this Chapter shall control.

For non-DUS Lenders, unless otherwise permitted in the Lender Contract, Small Mortgage Loans must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

In the event of a conflict between the requirements of this Chapter and the requirements regarding a similar subject contained in Part III, the requirements of this Chapter shall control.
Section 901.03. Applicability

The Small Mortgage Loan underwriting requirements contained in this Chapter are available only for the following Asset Classes:

- a Property securing the Mortgage Loan that is underwritten pursuant to Part IIIA;
- a Manufactured Housing Community (if an approved Lender);
- a Multifamily Affordable Housing (MAH) Property (if an approved Lender); and
- a market rate Cooperative Property.

Even for the above eligible Asset Classes, Small Mortgage Loan underwriting is not available if the Property securing the Mortgage Loan is:

- in a Planned Urban Development (PUD) exhibiting financial weakness (i.e., the association governing common areas has insufficient funds to repair any common area deferred maintenance or fulfill any other financial obligations required by the association);
- a Limited Equity Cooperative Property; or
- a Fractured Condominium.

In addition, not all special product features or executions described in Part IIIC are available for Small Mortgage Loans. The Lender Contract will govern what Property types and special product features or executions are available to the Lender.

If a Lender anticipates that it will develop a dedicated platform delivering Small Mortgage Loans through this Chapter, then the Lender must contact Fannie Mae. An example of a dedicated platform includes, but is not limited to, an existing or newly created function within the Lender that commences or increases production of Small Mortgage Loans, regardless of whether such function has previous experience delivering Small Mortgage Loans under this Chapter.

Section 901.04. Pre-Review Mortgage Loans

Notwithstanding the requirements for Pre-Review Mortgage Loans provided in the Multifamily Underwriting Standards or in Part IIIA, Chapter 2, any Small Mortgage Loan with any level of reduced loss sharing, without regard to the level of reduction, is a Pre-Review Mortgage Loan and the Lender must adhere to the requirements for the Mortgage Loan Pre-Review Quote Process in Part IIIA, Chapter 2.
Section 902.  Recourse and Non-Recourse Lending (06/17/13)

Section 902.01.  When Required

For all Small Mortgage Loans, the Multifamily Underwriting Standards provides the criteria for when recourse lending is required and when non-recourse lending is permitted.

Section 902.02.  Key Principal Guaranty Obligation

For all Small Mortgage Loans, each Key Principal must execute the following:

- for all recourse lending, each Key Principal is required to execute a Payment Guaranty; and
- for all non-recourse lending, each Key Principal is required to execute a Guaranty of Non-Recourse Obligations.

Section 903.  Occupancy Requirements (06/17/13)

For all Small Mortgage Loans, “Stabilized Residential Occupancy” means:

- if the Property contains 10 or more units, the Property may not have a physical occupancy by Qualified Occupants of less than 90% for the 90 days immediately preceding the Commitment Date; and
- if the Property contains less than 10 units, not more than one unit may be vacant and the Property must have an average occupancy by Qualified Occupants of not less than 90% for the 12-month period immediately preceding the Commitment Date.

Section 904.  Corporate Leases; Leases to One Entity (06/17/13)

Up to 10% of the units in the Property may be leased by corporations, partnerships, trusts, or other entities. No more than 5% of the total units in the Property may be leased to any single corporation, partnership, trust, or other entity. Entity leases of residential units for residential purposes are considered residential space.

Section 905.  Property Income Analysis (08/28/17)

Section 905.01.  Small Mortgage Loan Underwritten Net Cash Flow (Underwritten NCF)

Unless the Lender Contract permits otherwise, the maximum Underwritten NCF must be calculated as follows, and include the specific income and operating expense line items noted in
the loan-sizing spreadsheet, although the Lender is delegated to calculate the Underwritten NCF more conservatively. A Small Mortgage Loan secured by a Multifamily Affordable Housing Property must calculate Underwritten NCF as provided in Part IIIB, Section 703, except that the Replacement Reserve for a Small Mortgage Loan secured by an MAH Property must be calculated based on the methodology specified below.

### UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

#### CALCULATION OF INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td><strong>GROSS RENTAL INCOME</strong> - the lesser of (i) actual rents in place, or (ii) market rents for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12)(^1)</td>
</tr>
<tr>
<td>2</td>
<td>PLUS</td>
<td>To the extent deducted as an operating expense, rents for other non-revenue units (e.g., (i) model units deducted in the “model apartment” operating expense in the “general and administrative” category; (ii) owner-occupied units(^2) deducted in the “general and administrative” category; and (iii) employee units(^3) deducted in the “employee” operating expense in the “payroll and benefits” category.</td>
</tr>
<tr>
<td>3</td>
<td>MINUS</td>
<td>Premiums and/or Corporate Premiums</td>
</tr>
<tr>
<td>4</td>
<td>MINUS</td>
<td>Physical Vacancy – market rents for vacant units based on a current rent roll (multiplied by 12)</td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Concessions (i.e., the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for one or more months, move-in allowance, etc.)(^4)</td>
</tr>
<tr>
<td>6</td>
<td>MINUS</td>
<td>Bad Debt (i.e., the aggregate amount of unpaid rental income due from tenants determined to be uncollectable): include any adjustments to Other Income for Bad Debt(^4)</td>
</tr>
</tbody>
</table>

EQUALS **NET RENTAL INCOME (NRI)**

---

\(^1\) In the New York-Northern New Jersey-Long Island, NY-NJ-PA MSA, the Lender may use actual rents in place plus projected increases for rent-regulated units that have rent increases scheduled prior to, or through, the first 12 months of the loan term. Any units subject to rent regulation on the Mortgage Loan Commitment Date must be treated as rent-regulated for the purpose of this calculation even if converting to market rate after origination.
UNDERWRITTEN NET CASH FLOW
(SMALL MORTGAGE LOANS)

(b) For Properties located in New York City that are currently subject to the J51 Tax Incentive Program, the Gross Rental Income must comply with the requirements in Part IIIA, Chapter 3.

2 Owner-occupied units must be deducted as an expense unless the Mortgage Loan is:
   - a Tier 3 or Tier 4 Mortgage Loan;
   - secured by a Property containing 24 units or more; or
   - secured by a Property containing less than 24 units, is a Tier 2 Mortgage Loan, and requires full personal liability of the Borrower.

3 Deduct as an expense the portion of the market rent utilized as compensation for the employee.

4 The total of Item 4, plus Item 5, plus Item 6 must not be less than 5% of GPR. However, in the New York-Northern New Jersey-Long Island, NY-NJ-PA and San Francisco-Oakland-Fremont, CA, MSAs, not less than 3% of GPR, if supported by market and property operations.

CALCULATION OF OTHER INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>PLUS</td>
<td>Actual other income (except Premiums and Corporate Premiums) generated through ongoing operations. The income must:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- be stable;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- be common in the market;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- exclude one-time extraordinary non-recurring items; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- be supported by prior years.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Lender must assess the individual month Underwritten Other Income within the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). If there are fluctuations, the Lender may use Underwritten Other Income that exceeds the trailing 3 month Other Income (annualized), as long as the Underwritten Other Income does not exceed the highest 1 month Other Income used in the trailing 3 month Other Income calculation. The Lender must fully support any changes to the Underwritten Other Income.</td>
</tr>
</tbody>
</table>

CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>PLUS</td>
<td>Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable)</td>
</tr>
<tr>
<td>9</td>
<td>MINUS</td>
<td>10% of the actual commercial income</td>
</tr>
</tbody>
</table>

5 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.
UNDERWRITTEN NET CASH FLOW
(SMALL MORTGAGE LOANS)

10 PLUS Laundry/vending, parking and all other income as detailed in Part IIIA, Section 311.01.

EQUALS EFFECTIVE GROSS INCOME (EGI)

CALCULATION OF OPERATING EXPENSES

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>MINUS</td>
<td>Line-by-line stabilized Property operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included. The Lender must assess past operating history, the appraiser’s expense analysis, all information available to the Lender (including property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets), and the Borrower’s budget (in the case of an acquisition loan). The Lender should analyze historical operations at the Property and apply an appropriate increase over the prior year’s operations in determining an estimate. If a trend is not applied, the Transaction Approval Memo must provide clear support and justification for stable or declining operating expenses.</td>
</tr>
<tr>
<td>12</td>
<td>MINUS</td>
<td>Operating Expenses (other than Property Management Fee, Real Estate Taxes, or Insurance which must be calculated as described below), may be based on any one of the following so long as any material divergence among these options is explained in the Transaction Approval Memo, and the underwritten amount is supported: - the actual Operating Expense; - an Appraiser’s determination of the market expense; or - an actual contract in place. However, no Operating Expense may reflect blanket or bulk discounts that benefit the Borrower or Key Principal (e.g., blanket property or casualty insurance policies, or utilities purchased in bulk). Operating Expenses must reflect the Property expenses on a stand-alone basis.</td>
</tr>
</tbody>
</table>
### UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

<table>
<thead>
<tr>
<th>Step</th>
<th>Minus</th>
<th>Calculation</th>
</tr>
</thead>
</table>
| 13   | Property Management Fee equal to the greatest of:  
|      | ■ 3% of EGI;  
|      | ■ actual Property Management Fee (exclude any portion of a non-arm’s length Property Management Fee that is subordinated to the Mortgage Loan); or  
|      | ■ market Property Management Fee.  |
| 14   | Real Estate Taxes based on the greatest of:  
|      | ■ actual future tax bill or bills covering a full calendar year;  
|      | ■ prior full year’s taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or  
|      | ■ in California, the greater of (i) the Small Mortgage Loan amount, or (ii) assessed value, multiplied by the millage rate.  
|      | All tax assumptions must consider any automatic reassessment upon acquisition in the next 12-month period.  
|      | A reduced real estate tax payment may be used if the Property’s real estate tax abatements, exemptions, or deferrals meet the requirements set forth in Part IIIA, Section 311.  |
| 15   | Insurance equal to:  
|      | ■ The quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or  
|      | ■ 110% of the current expense, for insurance policies with a remaining term less than 6 months.  |
| 16   | Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent and all other expenses as detailed in Part IIIA, Section 311.01.  |
| 17   | Capital Expenditures (Replacement Reserve) equal to at least:  
|      | ■ $200 per unit, for a Property with an overall rating of “1”, as shown on the Comprehensive Assessment  |

**EQUALS**  
UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)

Addendum (“Comp Assmt Addendum”) tab of the MBA Master Inspection Form;
- $250 per unit, for a Property with an overall rating of “2”, as shown on the Comprehensive Assessment Addendum (“Comp Assmt Addendum”) tab of the MBA Master Inspection Form; or
- $300 per unit, for a Property with an overall rating of “3”, as shown on the Comprehensive Assessment Addendum (“Comp Assmt Addendum”) tab of the MBA Master Inspection Form.

EQUALS

UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)

6 If a PCA was completed, the Replacement Reserve must equal the amount required per Part IIIA, Chapter 3, subject to a minimum of $200 per unit.

Section 905.02. Calculation of Underwritten Debt Service Coverage Ratio (DSCR)

The Lender must calculate Underwritten DSCR as follows.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>FUNCTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>Underwritten NCF as calculated in Section 905.01</td>
</tr>
<tr>
<td>2</td>
<td>DIVIDED BY</td>
<td>Annual debt service for the Mortgage Loan amount. Debt service must be based on a level debt service payment with an Amortization term pursuant to the Multifamily Underwriting Standards, or other Amortization term approved by Fannie Mae, and the higher of:</td>
</tr>
</tbody>
</table>

  - the Gross Note Rate; or
  - the required Underwriting Interest Rate Floor.³

1 For a Small Mortgage Loan secured by an MAH Property underwritten pursuant to this Chapter, comply with the minimum DSCR requirement for an MAH Property pursuant to the Multifamily Underwriting Standards.

2 For shorter Amortization terms, calculate the Underwritten DSCR based on the shorter period, and comply with the minimum DSCR requirement pursuant to the Multifamily Underwriting Standards. The Lender is not required to comply with the mandatory NRI adjustments provided in Part IIIA, Chapter 3, for Properties with declining NRI.

³ For a Small Mortgage Loan secured by an MAH Property underwritten pursuant to this Chapter, comply with the required Underwriting Interest Rate Floor for an MAH Property pursuant to the Multifamily Underwriting Standards.
Section 906. Property Management (02/03/14)

Section 906.01. Definitions

For purposes of this Section, the term “Local Borrower” means a Borrower or at least one Key Principal of the Borrower that has a primary residence located within 100 miles of the Property. The term “Non-Local Borrower” means neither the Borrower nor any Key Principal of the Borrower has a primary residence located within 100 miles of the Property. The Borrower or any Key Principal must have at least 2 years of experience owning or managing other multifamily properties that are “similar in size” to the Property. To determine if the Property is “similar in size” to other multifamily properties managed by the Borrower or any Key Principal, the Lender must assess the Property by number of units using the following equivalencies.

<table>
<thead>
<tr>
<th>Type</th>
<th>Unit Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Property</td>
<td>5 – 50 units</td>
</tr>
<tr>
<td>Medium Properties</td>
<td>51 – 100 units</td>
</tr>
<tr>
<td>Large Properties</td>
<td>101 or more units</td>
</tr>
</tbody>
</table>

For example, if the Property contains 15 units, the Borrower or at least one Key Principal must have multifamily property management experience managing a Small Property (as described in the above grid).

Experience by the Borrower or any Key Principal in owning or managing a Large Property as noted in the grid will also satisfy the “similar in size” experience requirement for Medium and Small Properties. Similarly, experience by the Borrower or any Key Principal in owning or managing a Medium Property as noted in the grid will also satisfy the “similar in size” experience requirement for Small Properties.

A Non-Local Borrower with less than 2 years of multifamily property management experience for properties similar in size to the Property, at the time of delivery of the Mortgage Loan to Fannie Mae, is not an eligible Borrower.

Section 906.02. Properties with Less than 10 Units

Any Property owned by a Local Borrower and containing less than 10 units does not require professional property management if the Lender determines that the Property condition and cash flow stability is sound. Any Property owned by a Non-Local Borrower having 2 or more years of multifamily property management experience and containing less than 10 units must have professional property management.
Section 906.03. Properties with 10 Units or More

Any Property containing 10 units or more must be professionally managed pursuant to a written management agreement conforming to the requirements of Part IIIA – Base Underwriting Requirements, regarding written management agreements, if either of the following conditions applies:

- the Borrower is a “Local Borrower” and does not have at least 2 years of multifamily property management experience for properties similar in size to the Property at the time of the Purchase by Fannie Mae of the Mortgage Loan, or
- the Borrower is a “Non-Local Borrower” with at least 2 years of multifamily property management experience for properties similar in size to the Property at the time of the Purchase by Fannie Mae of the Mortgage Loan.

When professional management is required, the management company must have an office that is physically located within 100 miles of the Property.

In lieu of a professional management company, the Borrower may engage a qualified on-site manager. A qualified on-site manager: (i) may be either a resident or non-resident, (ii) is generally on-site during normal business hours, and (iii) has been successfully managing the Property for at least 2 years or has demonstrated similar management experience with properties similar in size to the Property for at least 2 years.

Section 907. Property Condition – Site Inspection and Property Condition Assessment (11/28/16)

Section 907.01. Site Inspection by Lender or Other Third Party

A physical inspection of the Property is required for all Small Mortgage Loans (including any Small Mortgage Loan that is also a Choice Refinance Loan). Any Small Mortgage Loan having a Mortgage Loan term greater than 10 years (including a Small Mortgage Loan secured by an MAH Property underwritten pursuant to this Chapter) will require a new site inspection be performed in the 10th year of the Mortgage Loan term. For each Small Mortgage Loan, Fannie Mae requires a qualified Employee of the Lender meeting the requirements stated below, a qualified appraiser, or other qualified third-party inspector to physically inspect the Property and to complete the MBA Master Inspection Form.

The physical inspection of the Property and the MBA Master Inspection Form may be completed by a qualified Employee of the Lender, provided that the Employee completing the site inspection and the MBA Master Inspection Form has experience equivalent to the experience required for a third-party evaluator described in Part IIIA, Section 316.

The site inspection must provide the Lender with sufficient information to complete the MBA Master Inspection Form, which will include:
• an assessment of the current condition of the Property;
• the identification and cost estimate of the Property’s short-term repair needs that must be reflected in Schedule 6 of the Multifamily Loan Agreement; and
• a general estimate of expected replacement and major maintenance needs.

For Small Mortgage Loans with multiple buildings, the site inspection at a minimum must address the condition of all roofs, HVAC equipment, exterior façade, parking lots and exterior walkways/balconies.

The aging of the site inspection must conform to the Property Condition Assessment (“PCA”) requirements contained in Part IIIA, Chapter 3.

If a qualified appraiser or other qualified third-party inspector is performing the physical inspection of the Property, then an Employee of the Lender must visit the Property unless otherwise approved by Fannie Mae.

Any Small Mortgage Loan will be ineligible for purchase by Fannie Mae if it would be secured by a Property that:

• has an overall rating of 4 or 5, as shown on the Comprehensive Assessment Addendum (“Comp Assmt Addendum”) tab of the MBA Master Inspection Form; or
• has deferred maintenance and the repair costs for such deferred maintenance exceeds 10% of the unpaid principal balance of the Small Mortgage Loan.

Section 907.02. Site Inspection by Borrower

The Borrower or the Key Principal of the Borrower is required to conduct a physical inspection of the Property and certify in the Multifamily Underwriting Certificate that such party has performed a site inspection.

Section 907.03. PCA Requirements (If Required)

A PCA is generally not required for Small Mortgage Loans; however a PCA is required if:

• structural/physical concerns are noted during the site inspection, in which case Fannie Mae reserves the right to require a full PCA for the Property;
• the site inspection results in an overall rating of “3”, as shown on the Comprehensive Assessment Addendum (“Comp Assmt Addendum”) tab of the MBA Master Inspection Form; or
• non-recourse lending is available for Tier 2 Small Mortgage Loans in Nationwide Markets under the Multifamily Underwriting Standards.
When a PCA is required, the Lender may use the Streamlined Property Condition Assessment Guidance (Form 4099.A), but the PCA must otherwise conform to the PCA requirements described in Part IIIA, Section 316. The Lender may also use the Streamlined PCA Requirements (Form 4099.A) in lieu of the MBA Master Inspection Form noted above as long as the Streamlined PCA includes the overall inspection rating as defined on the MBA Master Inspection Form.

Section 907.04. Documentation of PCA

The evaluator must document its findings as required by the PCA requirements in Part IIIA, Section 316.

Section 908. Replacement Reserve (07/15/16)

The Lender must determine whether the Borrower is required to make monthly deposits to fund the Replacement Reserve for the Property. If funding is not required, the Lender and Borrower must execute the appropriate Modifications to Multifamily Loan and Security Agreement (Replacement Reserve -- Partially or Fully Waived) (Form 6220 series), or Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Alternative Funding) (Form 6221 series).

Section 909. Environmental Matters and Inspections (08/28/17)

Section 909.01. General Requirements

Fannie Mae requires that the Lender take responsible actions to manage the risk of loss from environmental damage and liability. If a Phase I Environmental Site Assessment or Phase II Environmental Site Assessment is required based on the results of the initial Environmental Screening, then all requirements of Part IIIA, Chapter 3, relating to a Phase I Environmental Site Assessment or Phase II Environmental Site Assessment, as applicable, must be followed. If O&M Plans are required based on the attributes of the Property securing the Small Mortgage Loan, such O&M Plans must conform to the requirements of Part IIIA, Chapter 3.

Section 909.02. Lender’s Responsibilities

Prior to closing the Small Mortgage Loan, the Lender must:

- obtain an Environmental Screening using the ASTM E-1528-14 protocol (as modified or restated from time to time) relating to the Property;
- perform a physical site inspection of the Property;
- notify the Appraiser of any Recognized Environmental Condition or “non-scope considerations” that would impact the value of the Property;
- determine whether an O&M plan is appropriate or required to remediate or abate a Recognized Environmental Condition affecting the Property;
- determine whether the state where the Property is located has an environmental super-lien statute, and, if so, ensure that conditions on the Property are not likely to result in such a lien encumbering the Property;
- disclose to Fannie Mae any knowledge of actual or suspected environmental conditions affecting the Property not otherwise disclosed in the Environmental Site Assessment;
- evaluate the potential risk of loss to, and liability of, the Borrower, the Property, Fannie Mae and the Lender posed by any Recognized Environmental Conditions;
- obtain a copy of any Phase I Environmental Site Assessment (if available);
- determine if a Phase I Environmental Site Assessment report is required based on findings identified in the environmental screening and analysis. If required, then the Lender must contract for a Phase I Environmental Site Assessment; and
- when indicated, contract for a Phase II Environmental Site Assessment.

The Lender must disclose to Fannie Mae, in its Transaction Approval Memo, any knowledge of actual or suspected environmental problems.

The Lender may contract portions of its environmental responsibilities to qualified parties and the environmental screening and analysis may be completed by:

- the engineer conducting the Property Condition Assessment (if required),
- a qualified Employee of Lender; or
- a qualified Non-Employee.

If a qualified Employee of Lender performs the environmental screening and analysis, the Lender must:

- identify to Fannie Mae such Employee; and
- the Employee must certify each environmental analysis and such certification must be submitted in Folder II of the Multifamily Mortgage Loan Table of Contents (Form 6502).

If a qualified Non-Employee performs the environmental screening and analysis, the Lender must provide a certification in Folder II of the Multifamily Mortgage Loan Table of Contents (Form 6502) that the environmental analysis is being executed by such qualified Non-Employee.
Section 910. Seismic Risk Assessment (08/28/17)

For seismic risk assessment requirements regarding Small Mortgage Loans, please refer to Part IIIA, Section 321.

Section 911. Property and Liability Insurance (02/03/14)

For insurance requirements regarding Small Mortgage Loans, please refer to Part IIIA, Section 322.

Section 912. Borrower, Key Principals and Principals (06/10/15)

All requirements of Part IIIA, Chapter 4 regarding the Borrower, Key Principals and Principals apply to Small Mortgage Loans, except as provided below.

Section 912.01. Borrower Organizational Structure

The Borrower is not required to be a single-asset entity. Any individual Borrower must be a U.S. citizen.

Section 912.02. Co-Tenant Borrowers

Co-tenants may be (i) individuals who are U.S. citizens, (ii) single asset entities and/or (iii) multiple asset entities. A tenancy-in-common agreement that complies with Part IIIA, Chapter 4 must be in place. The execution of a Guaranty by a Key Principal as required by Section 903 above is required only when a Co-Tenant Borrower is not an individual or a trust holding title to assets of such individual.

Section 912.03. Key Principals

For Small Mortgage Loans, any individual Key Principal must be a U.S. citizen. Entity Key Principals meeting the requirements of Part IIIA, Chapter 4 are permitted.

Section 912.04. Principals – Defined

For Small Mortgage Loans, a “Principal” is any person or entity holding in aggregate, taking into account all direct and indirect holdings, a 50% or greater interest in the Borrower.

Section 912.05. Financial Statements

For Small Mortgage Loans, the Lender may obtain an equivalent signed net worth statement or personal financial statement (i.e., form bank application summarizing the financial
condition of, and certified by, the Borrower) instead of signed financial statements or balance sheets. The Lender must obtain a schedule of real estate owned. The aging of any equivalent net worth statement must conform to the requirements of Part IIIA, Chapter 4.

**Section 912.06. Net Worth and Liquid Assets Requirements**

The combined net worth of the Borrower and all Key Principals must be at least equal to the original principal amount of the Small Mortgage Loan. “Net worth” is defined as the total assets minus total liabilities of an individual or an entity. “Assets” is defined as cash and equivalents, short term investments, receivables, inventory, prepaid expenses, long-term investments, fixed assets or intangible assets. “Liabilities” include current, long-term and contingent liabilities.

The combined post-closing liquid assets of the Borrower and all Key Principals must equal 9 monthly payments of principal and interest of the Small Mortgage Loan. “Liquid assets” are cash on hand or in savings or checking accounts, stocks, bonds, mutual fund shares, certificates of deposit, credit union shares or similar type liquid investments. Retirement funds (such as IRAs and 401Ks) and cash-out proceeds derived from the Small Mortgage Loan or promissory notes (without regard as to whether such promissory note is secured by a mortgage or other collateral) payable to the Borrower or a Key Principal are not acceptable forms of a liquid asset.

To verify the validity of the Borrower and Key Principal’s liquid assets, the Lender must obtain for the 2 month period immediately preceding the Borrower’s loan application:

- copies of all applicable bank statements; and
- copies of all applicable investment portfolio statements.

The amount of the Borrower and Key Principal’s verified liquid assets must be discussed in the Transaction Approval Memo. All such statements must clearly identify the Borrower or the Key Principal, as applicable, as the account holder and include the account number, date of the statement, and ending account balance.

**Section 913. Credit Reports, FICO Scoring, and Credit Report Review for all Small Mortgage Loans (06/17/13)**

The requirements of Part IIIA, Chapter 4 regarding credit reports, FICO scoring and credit report review apply to all Small Mortgage Loans.

**Section 914. Interest-Only Small Mortgage Loans (11/28/16)**

All requirements of Part IIIC, Chapter 1 apply for any Interest-Only Small Mortgage Loan. Available interest-only periods for Small Mortgage Loans are set forth in the Multifamily Underwriting Standards. A Mortgage Loan secured by an MAH Property underwritten pursuant
to this Chapter must comply with the Interest-Only requirements for an MAH Property set forth in the Multifamily Underwriting Standards.
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Chapter 11 – Green Mortgage Loans

Section 1101. General (12/18/17)

Section 1101.01. Definitions

This Chapter applies to Green Mortgage Loans. A “Green Mortgage Loan” is a Mortgage Loan that:

- is secured by a Property which has been awarded a current Fannie Mae-recognized Green Building Certification as described in Section 1102 of this Chapter;
- qualifies as a Green Rewards Mortgage Loan as described in Section 1103 of this Chapter; or
- qualifies as a Green Preservation Plus Mortgage Loan, as described in Part IIIB, Chapter 7 of the Guide.

Section 1101.02. Underwriting Requirements and Eligibility

A Green Mortgage Loan is eligible for purchase by Fannie Mae if it meets all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the applicable Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

However, a Mortgage Loan secured by a Manufactured Housing Community is not eligible to be a Green Mortgage Loan.

Section 1101.03. Origination Fee and High Performance Building Module

Green Rewards Mortgage Loans and Green Preservation Plus Mortgage Loans require that the Lender:

- obtain either a High Performance Building Module (“HPB Module”) delivered as part of a required Property Condition Assessment (“PCA”), or a separate standalone High Performance Building (HPB) Report (“HPB Report”); and
- complete Appendix H: HPB Module Report Tables (Form 4099.H), to the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099).

The HPB Report/HPB Module and the Form 4099.H must be completed in accordance with the requirements of Form 4099.
Notwithstanding the prohibition on Lenders paying third party expenses related to the Mortgage Loan, as set forth in Part IVA, Section 202, the Lender may reimburse the Borrower from the Origination Fee for (i) the cost of any standalone HPB Report, or (ii) the incremental cost of the HPB Module over the cost of the base PCA for a Green Rewards Mortgage Loan or a Green Preservation Plus Mortgage Loan. However, the cost of the base PCA must be paid by the Borrower. The Lender should submit the invoice for the HPB Module of the PCA according to the Job Aid – “How To: Register, Quote, Close, and Deliver a Green Mortgage Loan”. Fannie Mae will reimburse the Lender for the cost of the HPB Module/HPB Report following delivery of the Green Mortgage Loan and its disclosure as a Green MBS.

Section 1101.04. Green MBS

The Lender must disclose a Green Mortgage Loan purchased by Fannie Mae as an MBS Mortgage Loan as a “Green MBS”.

Section 1101.05. Committing and Delivery

To commit and deliver a Green Mortgage Loan, the Lender must follow the Job Aid – “How To: Register, Quote, Close, and Deliver a Green Mortgage Loan”. All applicable documents required to underwrite the Green Mortgage Loan (e.g., the HPB Module/HPB Report and completed Form 4099.H) must be submitted by the Lender in the Mortgage Loan Delivery Package in Folder II.

Section 1102. Green Building Certification (12/18/17)

A “Green Building Certification” is a designation awarded by a recognized third-party organization to a multifamily property that has been constructed, and/or is maintained, in a way that meets pre-defined energy and water efficiency standards or other environmental sustainability criteria. A Property securing a Green Mortgage Loan must have been awarded a Green Building Certification that is recognized and approved by Fannie Mae.

Eligible Green Building Certifications that have been approved by Fannie Mae are listed on Form 4250 – Green Building Certifications.

To qualify as a Green Mortgage Loan, the Green Building Certification awarded to the Property must:

- apply specifically to the Property and not to a larger development site which includes the Property;
- cover all residential units of the Property;
- be current (e.g., not pending or expired) at the time of Rate Lock; and
- have been reviewed and approved by the Lender prior to:
□ Rate Lock, if not using the Streamlined Rate Lock option; or
□ the Mortgage Loan Origination Date, if using the Streamlined Rate Lock option.

Section 1103. Green Rewards Mortgage Loans (12/18/17)

Section 1103.01. General

A “Green Rewards Mortgage Loan” is a Mortgage Loan secured by a Property on which the Borrower agrees to undertake one or more Energy- and Water-Efficiency Measures (“Efficiency Measures”, or “EWEM”) that project a minimum 25% annual reduction in either energy or water consumption, as described in this Section.

Section 1103.02. Eligibility Requirements

A. General

To determine whether the Property qualifies for a Green Rewards Mortgage Loan, the Lender must obtain an HPB Module. If the Guide does not require a PCA for the underlying Mortgage Loan, then a consultant must be retained by the Lender and instructed to perform the scope of work necessary to complete a standalone HPB Report, in accordance with the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099). The HPB Module or HPB Report will identify the Efficiency Measures projecting a minimum 25% reduction in either annual energy or annual water consumption.

The projected reduction must be in either energy or water consumption; energy and water reductions may not be combined to meet the 25% threshold. The reduction for both energy and water must be measured against the entire Property’s annual consumption of energy and water for the prior year. All energy or water sources, including district steam, fuel oil, propane, wood pellets, or well water, used by all indoor and outdoor areas of the Property, such as common areas, tenant units, and landscaping, must be included in the respective calculation of the whole Property’s historical energy and water consumption.

Only energy and water Efficiency Measures that are capital improvements or other physical enhancements to owned Improvements or equipment, and which are based on verified Property conditions, may count towards determining a Property’s eligibility for a Green Rewards Mortgage Loan (or a Green Preservation Plus Mortgage Loan). While improving the operation and maintenance of the Property (such as retro-commissioning systems or converting from a master meter to sub-metering) is encouraged, improvements in energy and water efficiency from operations and maintenance activities, improvements to leased equipment, or recommendations based on unverified assumptions must not be included in determining a Property’s eligibility.
B. HPB Module/HPB Report Scoring

The Lender must score each HPB Module or HPB Report received according to the following 3-point system:

<table>
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<th>Score</th>
<th>Quality of HPB Report/HPB Module</th>
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<tbody>
<tr>
<td>1</td>
<td>The HPB Report is approved by the Lender or Fannie Mae as-is, with no corrections required to address issues.</td>
</tr>
<tr>
<td>2</td>
<td>The HPB Report has minor issues or requires clarifications to be made by the consultant prior to Lender or Fannie Mae approval.</td>
</tr>
<tr>
<td>3</td>
<td>The HPB Report has major issues or multiple report revisions are required to be made by the consultant prior to Lender or Fannie Mae approval.</td>
</tr>
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The final HPB Module/HPB Report must be reviewed and scored as a “1” by the Lender prior to the HPB Module/HPB Report being:

- approved by the Lender; or
- if required by this Section, submitted to Fannie Mae for approval.

If an HPB Module/HPB Report submitted to Fannie Mae for approval is scored less than a “1” by Fannie Mae, the HPB Report will be returned to the Lender with an explanation of the issues or deficiencies that must be addressed by the consultant prior to resubmission of the HPB Module/HPB Report to Fannie Mae.

C. HPB Module/HPB Report Approval

Any Lender that has delivered 8 or more Mortgage Loans which include an HPB Report (or a PCA Report containing an HPB Module) is delegated the authority to approve an HPB Report or HPB Module that has been prepared by any consultant designated by Fannie Mae as a “Pre-Qualified” HPB Consultant. Fannie Mae approval of the HPB Module or HPB Report is required only if:

- the Lender does not yet qualify for the increased delegation; or
- Fannie Mae has not yet designated the HPB Consultant as “Pre-Qualified”.

If Fannie Mae approval of the HPB Module or HPB Report is required, the HPB Module/HPB Report and the completed Form 4099.H must be submitted through DUS Gateway:

- at least 10 days prior to the Mortgage Loan Origination Date, if using the Streamlined Rate Lock option; or
- at least 5 days prior to Rate Lock, if not using the Streamlined Rate Lock option.
D. Non-Contiguous Parcels

If a Property is comprised of Non-Contiguous Parcels, the Lender must contact the Fannie Mae Deal Team prior to ordering the HPB Module to determine the application of these eligibility requirements to the Property.

**Section 1103.03. Implementing Energy- and Water-Efficiency Measures**

The Borrower must select and implement Efficiency Measures that are projected by the HPB Module or HPB Report to achieve at least a 25% reduction in either annual energy or water consumption in order to qualify as a Green Rewards Mortgage Loan. In addition:

- all Efficiency Measures must be included either on the Completion/Repair Agreement or the Rehabilitation Reserve Agreement, with each Efficiency Measure itemized and described in sufficient detail to ensure the specific energy- or water-efficiency products or equipment are installed;
- funds for the completion of all Efficiency Measures must be deposited into either the Completion/Repair Escrow or Rehabilitation Reserve Account, as applicable, in the amount of:
  - 100% of the estimated cost of such capital improvements (or such greater amount as determined by the Lender to include an allowance for cost overruns) identified by the HPB Module and selected by the Borrower; or
  - any higher funding percentage required by Part IIIA, Section 317 for capital improvements identified by the PCA as Immediate Repairs; and
- all Efficiency Measures must be completed in a timely manner, but not later than:
  - 12 months after the Mortgage Loan Origination Date for capital improvements identified by the HPB Module and selected by the Borrower; or
  - any shorter time period required by Part IIIA, Section 316 for capital improvements identified by the PCA as Immediate Repairs.

**Section 1103.04. Underwritten Net Cash Flow (NCF)**

The Underwritten NCF for a Property securing a Green Rewards Mortgage Loan must follow the applicable Underwritten NCF in Part IIIA or Part IIIB, as applicable, except that underwritten energy and water expenses may factor in projected cost savings expected to be derived from implementing the Efficiency Measures as set forth in Section 1103 of this Chapter.

For Efficiency Measures selected for implementation by the Borrower from those identified in the HPB Module, the Lender may include in its calculation of the Underwritten NCF for the Property:
75% of the energy and/or water cost savings that are expected to accrue to the Borrower; and/or
25% of the energy and/or water cost savings that are expected to accrue to the tenants at the Property.

The Borrower’s projected cost savings included in the calculation of Underwritten NCF must be based on actual, not estimated, consumption and cost data in accordance with the Instructions for Performing a Multifamily Property Condition Assessment (Form 4099). The tenant’s projected cost savings included in the calculation of Underwritten NCF may be based on a combination of actual and estimated consumption and cost data, so long as:

- the minimum sampling of tenant actual consumption and cost data has been obtained in accordance with Form 4099; and
- tenant savings cost projections based on modeled tenant data are not used to increase the Underwritten Net Cash Flow of a Green Rewards Mortgage Loan.

**Section 1103.05. Maximum Amount of Green Rewards Mortgage Loan**

The maximum amount of the Green Rewards Mortgage Loan based on the Underwritten NCF using projected energy- and water-cost savings must not exceed 105% of the maximum amount of the underwritten Mortgage Loan excluding such projected cost savings. For a Green Rewards Supplemental Mortgage Loan, the maximum amount must be based on the aggregate Unpaid Principal Balance of all Pre-Existing Mortgage Loans, plus the amount of the Green Rewards Supplemental Mortgage Loan.

**Section 1103.06. Supplemental Mortgage Loans**

Notwithstanding the maximum number of Supplemental Mortgage Loans permitted pursuant to Part IIIC, Chapter 2, an additional Supplemental Mortgage Loan is permitted for a Green Rewards Mortgage Loan provided that 100% of the additional Supplemental Mortgage Loan proceeds are used to implement Efficiency Measures in accordance with Section 1103.

**Section 1104. Annual Energy Reporting and Loan Document Requirements (12/18/17)**

For any Green Mortgage Loan, the Lender must use Modifications to Multifamily Loan and Security Agreement (Green Financing Mortgage Loans) (Form 6241), which requires the Borrower to report the Property’s annual energy and water use.
Section 1105. Multifamily Affordable Housing Properties and Green Preservation Plus Mortgage Loans (12/18/17)

To use Green Preservation Plus for the renovation of an existing MAH Property, please see Part IIIB, Chapter 7 of the Guide. For a Green Preservation Plus Mortgage Loan, the Lender:

- may reimburse the Borrower from the Origination Fee for (i) the cost of any standalone HPB Report, or (ii) the incremental cost of the HPB Module over the cost of the base PCA, provided that the cost of the base PCA must be paid by the Borrower; and

- is delegated the authority to approve the HPB Module or HPB Report to the same extent provided in this Chapter for a Green Rewards Mortgage Loan.
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Chapter 1 – Interest-Only Mortgage Loans

Section 101. Interest-Only Periods (10/13/14)

The Lender is delegated certain authority to determine whether a Mortgage Loan will have an interest-only period allowing the Borrower to pay only the monthly interest due on the Mortgage Loan. Delegated interest-only periods are described in the Multifamily Underwriting Standards. Any interest-only period must occur at the beginning of the Mortgage Loan term.

The Transaction Approval Memo must include a detailed analysis of risk and mitigating factors justifying the interest-only period. Maximum interest only periods should only be used for transactions with superior characteristics attributed to sponsorship, location, equity invested, or capital investment plans.

Section 102. Mortgage Loan Amount (07/15/16)

Regardless of the length of the interest-only period, the Lender must base the amount of the Mortgage Loan, and calculate the Underwritten NCF, and Underwritten DSCR using a debt service constant which includes the applicable amortization rate, and which otherwise meets the underwriting requirements provided in Part IIIA for an amortizing Mortgage Loan.
Part IIIC – Underwriting For Special Product Features or Executions

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Chapter 2 – Subordinate Financing

Section 201. General (01/30/17)

Section 201.01. Definitions

The requirements for a Supplemental Mortgage Loan, Split Mortgage Loan, and Non-Fannie Mae Subordinate Loan are provided in this Chapter. When used in this Chapter, the following capitalized terms have the meanings set forth below.

- “Moderate Rehabilitation Supplemental Mortgage Loan” shall mean the first Supplemental Mortgage Loan secured by a Lien on a Property that is subordinate to the Lien securing a Moderate Rehabilitation Mortgage Loan and complies with the requirements described below in this Chapter.

- “Non-Fannie Mae Subordinate Loan” shall mean a Subordinate Loan that is not owned by Fannie Mae, but where Fannie Mae owns the Senior Mortgage Loan.

- “Pre-Existing Loans” shall mean all multifamily residential real estate loans secured by Liens against the Property having higher priority than the Lien securing the Subordinate Loan.

- “Pre-Existing Mortgage Loans” shall mean all Pre-Existing Loans purchased by Fannie Mae.

- “Senior Loan” shall mean a multifamily residential real estate loan secured by a Lien against the Property having a higher priority than any other Lien securing a multifamily residential real estate loan on the same Property.

- “Senior Mortgage Loan” shall mean a Senior Loan purchased by Fannie Mae.

- “Split Mortgage Loan” shall mean a Senior Mortgage Loan and a Supplemental Mortgage Loan that are underwritten concurrently by the same Lender as one Mortgage Loan, have the same Mortgage Loan Origination Date, but which are documented as two separate Mortgage Loans.

- “Subordinate Loan” (also commonly known as a “junior loan”) shall mean a multifamily residential real estate loan secured by a Lien against the Property having a lesser priority than the Lien securing another multifamily residential real estate loan secured by a Lien on the same Property.

- “Supplemental Mortgage Loan” shall refer to a Subordinate Loan purchased (or intended to be purchased) by Fannie Mae when Fannie Mae also owns the Senior Mortgage Loan, but which Supplemental Mortgage Loan has a Mortgage Loan Origination Date after the Senior Mortgage Loan.
Section 201.02. General Underwriting Requirements

For a Supplemental Mortgage Loan or a Split Mortgage Loan to be eligible for purchase by Fannie Mae, it must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

Section 201.03. Supplemental Mortgage Loan Subordinate to a Credit Enhancement Mortgage Loan

A Lender may not originate a Supplemental Mortgage Loan (including a Split Mortgage Loan) or a Non-Fannie Mae Subordinate Loan secured by a Property that also secured a Credit Enhancement Mortgage Loan without the prior approval of the Fannie Mae Deal Team.

Section 201.04. Moderate Rehabilitation Supplemental Mortgage Loans

A. General

A Moderate Rehabilitation Supplemental Mortgage Loan must have:

- been originated within 36 months of the Mortgage Loan Origination Date of the Moderate Rehabilitation Mortgage Loan;
- completed Rehabilitation Work or other repairs, replacements, or improvements of at least $10,000/unit (based upon the total number of residential units at the Property rather than the number of units actually being rehabilitated) since the Mortgage Loan Origination Date of the Moderate Rehabilitation Mortgage Loan;
- evidence of (i) the qualifying scope of such work completed at the Property, and (ii) the cost of work and improvements to the Property verified by the Lender, and documented in the Transaction Approval Memo; and
- a site inspection performed by the Lender to verify the completion of the required work if not performed pursuant to a Completion/Repair Agreement or a Rehabilitation Reserve Agreement (Note: this requirement may be satisfied by the most recent asset management site inspection conducted after the completion of the required work at the Property).

B. Committing and Delivery Requirements

The Lender must identify the Moderate Rehabilitation Supplemental Mortgage Loan in DUS Gateway and use Special Feature Code 916 in C&D.
Section 202. Supplemental Mortgage Loans (01/30/17)

Section 202.01. Requirements

A Supplemental Mortgage Loan must meet the following requirements to be eligible for purchase by Fannie Mae.

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<td><strong>Lender Reserves</strong></td>
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<td><strong>Lien Holder of Record</strong></td>
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<td><strong>UCC Financing Statements</strong></td>
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<tr>
<td><strong>Mortgage-Backed Security (“MBS”) Executions</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Supplemental Mortgage Loan Terms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-Existing Mortgage Loans Eligible for Supplemental Mortgage Loans</strong></td>
</tr>
<tr>
<td>• All Pre-Existing Mortgage Loans are held by Fannie Mae</td>
</tr>
<tr>
<td>• Cash or MBS execution</td>
</tr>
<tr>
<td>• Resulting total combined Underwritten Debt Service Coverage Ratio (“DSCR”) and Loan to Value Ratio (“LTV”) meet the applicable Multifamily Underwriting Standards.</td>
</tr>
<tr>
<td><strong>Minimum Period between Supplemental and Most Recent Pre-Existing Mortgage Loan</strong></td>
</tr>
<tr>
<td>---</td>
</tr>
</tbody>
</table>
| **Maximum Number of Supplemental Mortgage Loans** | No more than 1 Supplemental Mortgage Loan is permitted during the term of the Senior Mortgage Loan, except for the following:  
- A Supplemental Mortgage Loan that was originated in connection with a sale of the Property to, and an assumption of any Pre-Existing Mortgage Loan by, an unrelated new Borrower. The closing and funding of the new Supplemental Mortgage Loan must occur simultaneously with the sale of the Property and the assumption of any of the Pre-Existing Mortgage Loans by the unrelated new Borrower.  
- A Moderate Rehabilitation Supplemental Mortgage Loan.  
- A Supplemental Mortgage Loan that refinanced Mezzanine Financing associated with a Community Investment Mezzanine (“CI Mezz”) – Moderate Rehabilitation or DUS Plus transaction. |
| **Minimum Term** | 5 years, subject to the following additional limitations:  
- For any Pre-Existing Mortgage Loan with a balloon payment at the Maturity Date, the Supplemental Mortgage Loan may not have a Maturity Date prior to the Maturity Date of the Pre-Existing Mortgage Loan.  
- For a Pre-existing Mortgage Loan that fully amortizes, the Supplemental Mortgage Loan must have a Maturity Date on or after the latest Prepayment Premium Period End Date of the Pre-Existing Mortgage Loan.  
- A Moderate Rehabilitation Supplemental Mortgage Loan must be coterminous with the Moderate Rehabilitation Mortgage Loan. |
| **Interest Rate Type and Rate Lock Option** |  
- The Supplemental Mortgage Loan may be fixed rate or adjustable rate regardless of whether the Pre-Existing Mortgage Loans are fixed rate, adjustable rate, or any combination thereof.  
- A Moderate Rehabilitation Supplemental Mortgage Loan is not permitted to use the Streamlined Rate Lock or Early Rate Lock options.  
- The Supplemental Mortgage Loan may not be a Fixed+1 Loan unless all Pre-Existing Mortgage Loans were originally funded with Extended Maturity or Fixed+1 Loans. |
The Supplemental Mortgage Loan may not be a Hybrid ARM Loan, nor may a Supplemental Mortgage Loan be placed where any Pre-Existing Mortgage Loan is a Hybrid ARM Loan.

**Mortgage Loan Amount**

Except as specified in Section 202.03 of this Chapter, the Underwritten NCF, Underwritten DSCR, and LTV used to determine the Supplemental Mortgage Loan amount are determined in accordance with Part IIIA, and any applicable provisions of Part IIIB of this Guide.

**Replacement Reserve, Tax, and Insurance Escrows**

Replacement Reserve, tax and insurance escrow requirements are based on the resulting Tier of the combined Pre-Existing Mortgage Loans and Supplemental Mortgage Loans, however escrow funding established with the Pre-Existing Mortgage Loans may neither decrease, nor cease. While the Lender may increase funding in connection with a Supplemental Mortgage Loan where the Tier is unchanged from the Pre-Existing Mortgage Loans, funding must be increased for any Tier Dropping Supplemental Mortgage Loan where the combined Tier is Tier 2.

**Section 202.02. Coterminous and Non-Coterminous Supplemental Mortgage Loans**

A Supplemental Mortgage Loan may be either coterminous or non-coterminous. A coterminous Supplemental Mortgage Loan must have the same Maturity Date as the Senior Mortgage Loan, although the Supplemental Mortgage Loan’s Prepayment Premium End Date does not need to coincide with the Prepayment Premium End Dates of all Pre-Existing Mortgage Loans.

A Supplemental Mortgage Loan that does not have the same Maturity Date as the Senior Mortgage Loan is a non-coterminous Supplemental Mortgage Loan.

**Section 202.03. Determining the Supplemental Mortgage Loan Amount**

**A. Calculating the Debt Service**

The amount of the Supplemental Mortgage Loan must be determined using the combined debt service amount of all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan based on the following.
### Pre-Existing Mortgage Loans

<table>
<thead>
<tr>
<th>Interest Rate Type</th>
<th>Amortization Type</th>
<th>Debt Service Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate</td>
<td>Fully-amortizing</td>
<td>Amortizing debt service amount based on the Gross Note Rate</td>
</tr>
<tr>
<td></td>
<td>Partial-term Interest-Only</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Full Term Interest-Only</td>
<td>Interest-Only debt service amount based on the Gross Note Rate</td>
</tr>
<tr>
<td>Adjustable Rate</td>
<td>Fully-amortizing</td>
<td>Amortizing debt service amount based on the origination loan amount, amortization term, and variable underwriting rate</td>
</tr>
<tr>
<td></td>
<td>Partial-term Interest-Only</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Full Term Interest-Only</td>
<td>Interest-Only debt service amount based on the origination loan amount, amortization term, and variable underwriting rate</td>
</tr>
</tbody>
</table>

### Supplemental Mortgage Loan

<table>
<thead>
<tr>
<th>Interest Rate Type</th>
<th>Amortization Type</th>
<th>Debt Service Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate or</td>
<td>All Amortization Types</td>
<td>Amortizing debt service amount based on the greater of the Gross Note Rate or:</td>
</tr>
<tr>
<td>Adjustable Rate</td>
<td></td>
<td>- for fixed rate Supplemental Mortgage Loans, the applicable Underwriting Interest Rate Floor in the applicable Multifamily Underwriting Standards; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- for adjustable rate Supplemental Mortgage Loans, the variable underwriting rate determined in accordance with Part IIIC</td>
</tr>
</tbody>
</table>

### B. Calculating the DSCR and LTV

To determine the Supplemental Mortgage Loan amount, the DSCR and LTV requirements in the Multifamily Underwriting Standards must be met using:

- for DSCR, the combined debt service of all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan; and
for LTV, the combined debt amount of the aggregate outstanding unpaid principal balance of all Pre-Existing Mortgage Loans and the principal amount of the Supplemental Mortgage Loan.

C. “New Loan” Test

If the Senior Mortgage Loan matures less than 7 years after the Mortgage Loan Origination Date of the Supplemental Mortgage Loan, the Lender must also perform the following “new loan” test.

The combined unpaid principal balance of all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan is limited to the maximum loan amount calculated using the applicable Pricing and Underwriting Tier for a new fixed rate Mortgage Loan, with a loan term equal to the remaining term of the Senior Mortgage Loan, and based on the higher of (i) the current actual interest rate, or (ii) the current applicable Underwriting Interest Rate Floor in accordance with the Multifamily Underwriting Standards.

D. Determining the Final Supplemental Mortgage Loan Amount

If the “new loan” test is required, the maximum amount of the Supplemental Mortgage Loan is the lesser of (i) the Mortgage Loan amount calculated pursuant to Paragraph B of this Section, or (ii) the Mortgage Loan amount calculated pursuant to the new loan test provided in Paragraph C of this Section.

If the new loan test is not required, the maximum Supplemental Mortgage Loan amount is the Mortgage Loan amount calculated pursuant to Paragraph B of this Section.

Section 202.04. Tier Dropping Supplemental Mortgage Loans

A. Definition

A “Tier Dropping Supplemental Mortgage Loan” is a Supplemental Mortgage Loan in which:

- the combined Underwritten DSCR of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans is below the minimum Underwritten DSCR of the original underwriting Tier of the Senior Mortgage Loan; or
- the combined LTV of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans is above the maximum LTV of the original underwriting Tier of the Senior Mortgage Loan.

If a Senior Mortgage Loan was designated as eligible for Tier Dropping Supplemental Mortgage Loans, all Supplemental Mortgage Loans secured by that Property must also be designated as eligible to be Tier Dropping Supplemental Mortgage Loans.
B. Eligible Mortgage Loans

1. Cash Mortgage Loans

A Cash Mortgage Loan is eligible for a Tier Dropping Supplemental Mortgage Loan if:

- the combined DSCR of the Pre-Existing Mortgage Loans and Supplemental Mortgage Loan is no lower than the minimum applicable DSCR for Tier 2 Mortgage Loans as set forth in the applicable Multifamily Underwriting Standards; and

- the combined LTV of the Pre-Existing Mortgage Loans and Supplemental Mortgage Loan is no higher than the maximum applicable LTV for Tier 2 Mortgage Loans as set forth in the applicable Multifamily Underwriting Standards.

2. MBS Mortgage Loans

MBS Mortgage Loans originated prior to September 1, 2007 must have been designated (using Special Feature Code “313”) as eligible for a Tier Dropping Supplemental Mortgage Loan at the time of Commitment of each Pre-Existing Mortgage Loan. MBS Pools designated as eligible for Tier Dropping Supplemental Mortgage Loans and issued prior to August 1, 2001 have a Pool prefix of JM. For Pools issued on or after August 1, 2001, the designation as eligible for Tier Dropping Supplemental Mortgage Loan must be disclosed on the MBS Schedule of Loan Information. Any MBS Pre-Existing Mortgage Loan not appropriately designated is not eligible for a Tier Dropping Supplemental Mortgage Loan.

C. Ineligible Mortgage Loans

ARM Loans cannot be Tier Dropping Supplemental Mortgage Loans.

D. Pricing Adjustments

Lenders must contact Fannie Mae Multifamily Pricing to review and confirm pricing adjustments applicable to Tier Dropping Supplemental Mortgage Loans.
Section 202.05. Streamlined Underwriting for Supplemental Mortgage Loans

A. The Property

1. Zoning

The Lender must confirm that there has been no change in zoning affecting the Property. If the Property has been rezoned causing it to become a non-conforming use, or rezoned to restrict further the ability of an existing non-conforming use to rebuild, the Lender must perform a non-conforming use analysis and otherwise comply with the requirements of Part IIIA, Section 308. However, a new zoning and non-conforming use analysis is not required for a Property that is a non-conforming use if the Property zoning has not changed since the time the Mortgage Loan was underwritten initially.

2. Appraisals

A new Appraisal is required for a Supplemental Mortgage Loan.

3. Property Management

If there has been or will be a Property management change, the documentation requirements regarding Property management provided in Part IIIA must be obtained for a Supplemental Mortgage Loan.

4. Property Condition Assessment ("PCA")

A PCA is required for a Supplemental Mortgage Loan unless all of the following apply:

- the date of the existing PCA is no more than 3 years old;
- immediate repairs as indicated in the existing PCA have been satisfactorily completed;
- the most recent Property inspection indicates an overall rating of 1 or 2; and
- the inspection of the Property at underwriting of the Supplemental Mortgage Loan does not reveal any adverse change in property condition or life safety issues.

5. Replacement Reserves

If the results of the PCA indicate that an increase in an existing Replacement Reserve or the initial funding of a Replacement Reserve is appropriate, the Lender must provide for the increased funding under either (a) an amendment to the existing
Replacement Reserve Agreement or (b) an Amended and Restated Replacement Reserve Agreement, with partial current funding in such increased or initial funding amount.

Notwithstanding any waiver or partial funding agreed to for any Pre-Existing Mortgage Loan, if the combined DSCR and LTV for all Pre-Existing Mortgage Loans and the Supplemental Mortgage Loan results in an underwriting Tier 2, then the Replacement Reserve must be fully funded.

6. **Environmental Site Assessment**

   If a Phase I was performed for any Pre-Existing Mortgage Loan, a new or updated Phase I (or Phase II) Assessment is not required for the Supplemental Mortgage Loan if the following conditions are met:

   - the Borrower certifies in the Environmental Indemnity Agreement as to the condition and use of the Property relating to compliance with Environmental Laws and the existence of Hazardous Materials;
   - the Lender performs an environmental database search in accordance with the Environmental Screening using the ASTM E-1528-14 protocol (as modified or restated from time to time) and determines that there are no adverse conditions that require further due diligence; and
   - the Borrower certifies in the Environmental Indemnity Agreement, and the Lender confirms, that the Borrower is appropriately implementing any existing O&M Plan that was put in place at the Mortgage Loan Origination Date of any Pre-Existing Mortgage Loan.

   If a Phase I was not performed for any Pre-Existing Mortgage Loan, or if the conditions above are not met, the Lender must follow the standard environmental due diligence procedures as described in Part IIIA, Section 320.

7. **Property and Liability Insurance.**

   The combined unpaid principal balances of the Supplemental Mortgage Loan and all Pre-Existing Mortgage Loans must be used in determining the required amounts and coverages of all property and liability insurance.

8. **Title Insurance.**

   A new title insurance policy is required.
B. The Borrower, Key Principals, and Principals

1. Structure and Experience

The Lender must:

- confirm the original underwriting of the Borrower, Key Principal and Principal in accordance with Part IIIA, Chapter 4, and obtain updated (i) financial statements for the Borrower, Key Principal and Principal, and (ii) Multifamily Underwriting Certificates;
- identify all Key Principals and Principals of the Borrower;
- obtain updated copies of the organizational documents of the Borrower and the Key Principal and confirm that the organizational structure of the Borrower and Key Principals meet the requirements set forth in Part IIIA, Chapter 4;
- confirm that no unauthorized change has been made to the organizational structure and organization documents of the Borrower; and
- obtain a new good standing certificate from the jurisdiction where the Borrower is organized.

If there has been an unauthorized Transfer/Assumption or any change in the organizational structure of the Borrower, Key Principals or Principals, then the Lender must evaluate the Borrower, Key Principals or Principals pursuant to the requirements provided in Part IIIA, Chapter 4.

2. Credit

The Lender must:

- perform an ACheck for the Borrower and all Key Principals and Principals; and
- determine that neither the Borrower, nor any Key Principal or Principal is (i) a “specially designated national and blocked person” on the Specially Designated Nationals List maintained by OFAC; (ii) exhibiting evidence of “red flags” that indicate a high risk of money-laundering or other criminal activity; or (iii) included on the SCP List.

Section 202.06. Other Provisions for Supplemental Mortgage Loans

A. Loss Level

Any change in either the Loss Level or the Allocable Percentage between the Pre-existing Mortgage Loan and a Supplemental Mortgage Loan must be approved by Fannie Mae.
B. Resubordination

In connection with a non-coterminous Supplemental Mortgage Loan, Fannie Mae will refinance the maturing Senior Mortgage Loan (and resubordinate the existing Supplemental Mortgage Loans).

C. Cross-Default

The Supplemental Mortgage Loan must be cross-defaulted with all Pre-Existing Mortgage Loans.

Section 203. Split Mortgage Loans (01/30/17)

Section 203.01. Generally

A Split Mortgage Loan provides the Borrower with the flexibility to assign different Yield Maintenance Period End Dates to the Senior Mortgage Loan and the Subordinate Mortgage Loan, thereby permitting the Borrower to de-leverage a portion of their debt during the term of the Split Mortgage Loans.

Section 203.02. Loan Terms for a Split Mortgage Loan

To be eligible as a Split Mortgage Loan, the Maturity Date of the Subordinate Mortgage Loan must be the same as the Maturity Date of the Senior Mortgage Loan.

Section 203.03. Split Mortgage Loan Underwriting

Fannie Mae will accept Split Mortgage Loans that:

- provide either acquisition financing or the refinance of existing debt;
- have a combined LTV for the Split Mortgage Loan that is no higher than the minimum standard for a Senior Mortgage Loan;
- have a combined DSCR for the Split Mortgage Loan that is no lower than the minimum standard for a Senior Mortgage Loan;
- are cross-defaulted and delivered at the same time; and
- otherwise comply in all respects with the applicable underwriting requirements in this Guide.
Section 203.04. Yield Maintenance for Split Mortgage Loans

The Yield Maintenance Period End Date of the Subordinate Mortgage Loan does not have to coincide with the Yield Maintenance Period End Date of the Senior Mortgage Loan (i.e., it may be longer or shorter than the Yield Maintenance Period End Date of the Senior Mortgage Loan).

Section 203.05. Streamlined Underwriting for Split Mortgage Loans

A. Hazard Insurance

The combined unpaid principal balances of the Senior Mortgage Loan and Subordinate Mortgage Loans must be used to determine the required insurance coverage.

B. Title Insurance

Separate title insurance policies are required for the Senior Mortgage Loan and Subordinate Mortgage Loan of a Split Mortgage Loan in the amount of each Mortgage Loan.

C. UCC Financing Statements

The UCC Financing Statement filed with the Senior Mortgage Loan will apply to both the Senior Mortgage Loan and Subordinate Mortgage Loan.

Section 203.06. Other Provisions for Split Mortgage Loans

A. Loss Level

For purposes of setting the initial Loss Level for a Split Mortgage Loan, the Senior Mortgage Loan and Subordinate Mortgage Loan will be treated as a single Mortgage Loan. For purposes of the Master Loss Sharing Agreement, the Senior Mortgage Loan and Subordinate Mortgage Loan will be treated as a single Mortgage Loan (as defined in the Master Loss Sharing Agreement).

B. Mortgage Loan Amount

The aggregate original principal amount of the Senior Mortgage Loan and the Subordinate Mortgage Loan is used to determine the amount of the Split Mortgage Loan.
Section 204. Non-Fannie Mae Subordinate Loans (01/30/17)

Section 204.01. Fannie Mae Consent Required

A Non-Fannie Mae Subordinate Loan is not permitted on any Property securing a Senior Mortgage Loan without Fannie Mae’s prior written consent.

Section 204.02. Multifamily Affordable Housing Properties and Credit Enhancement Mortgage Loans

The following will be permitted in accordance with the requirements set forth in this Guide:

- a Non-Fannie Mae Subordinate Loans secured by a Multifamily Affordable Housing Property that secures a Senior Mortgage Loan; and
- a Non-Fannie Mae Subordinate Loan secured by a Property that secures a Credit Enhancement Mortgage Loan.

Section 204.03. Requests for a Non-Fannie Mae Subordinate Loan

Fannie Mae will consider requests by the Borrower to permit a Non-Fannie Mae Subordinate Loan. The following are required.

- The request may not occur prior to the third Loan Year of the Senior Mortgage Loan, unless approved at the Mortgage Loan Origination Date of the Senior Mortgage Loan.
- The Borrower must be a single-asset entity.
- The term of the Non-Fannie Mae Subordinate Loan must be at least equal to the term of the Senior Mortgage Loan if the Non-Fannie Mae Subordinate Loan is not a fully amortizing Mortgage Loan.
- The Non-Fannie Mae Subordinate Loan must have a fixed rate of interest and interest must be payable on a current basis, with no deferral.
- For Cash Senior Mortgage Loans only:
  - if the Non-Fannie Mae Subordinate Loan will be a recourse Mortgage Loan, the Lender must require that the Borrower execute such amendments to the Loan Documents as are necessary to cause the Borrower's obligations under the Loan Documents to become recourse; and
  - If the Non-Fannie Mae Subordinate Loan will be partially or fully guaranteed by a Person other than the Borrower, the Lender must require that the Senior Mortgage Loan be guaranteed to the same extent and by the same Person that will guaranty the Non-Fannie Mae Subordinate Loan.
The subordinate lender, Fannie Mae, and the Borrower must execute the appropriate Fannie Mae form Subordination Agreement, either the Fannie Mae form Subordination Agreement (Conventional) (Series 6414) or the Fannie Mae form Subordination Agreement (Affordable) (Series 6456). No changes may be made to the form Subordination Agreement without Fannie Mae's prior written consent. The Subordination Agreement must be recorded in the land records immediately following the recordation of the Non-Fannie Mae Subordinate Loan.

Fannie Mae must be provided with a satisfactory title update prior to execution of the Subordination Agreement. After the Subordination Agreement is recorded, Fannie Mae must be provided with a title policy endorsement effective as of the date of recordation of the Non-Fannie Mae Subordinate Loan security instrument which ensures that the Lien of the Security Instrument securing the Senior Loan has priority over the Lien of the subordinate security instrument. The title policy must also reflect the recordation of the Subordination Agreement.

Fannie Mae, prior to execution, must approve all loan documents evidencing or securing the Non-Fannie Mae Subordinate Loan. The subordinate promissory note must contain the provisions required by the form Subordination Agreement.

Section 204.04. Obtaining Fannie Mae Approval

To obtain Fannie Mae consent to a Non-Fannie Mae Subordinate Loan, the Lender must comply with all documentation requirements for a Fannie Mae Supplemental Mortgage Loan as provided in this Chapter, except that the following documentation requirements must be obtained:

- A certification from the Borrower to the Lender and Fannie Mae (dated no earlier than the date of the Borrower's request) that the Borrower owns no assets other than the Property subject to the Lien of the Security Instrument;

- A summary outline of the terms of the Non-Fannie Mae Subordinate Loan with all relevant commitment documentation from the subordinate lender;

- A current Appraisal on the Property which conforms to the requirements of this Guide;

- A copy of the loan documents evidencing or securing the Non-Fannie Mae Subordinate Loan that have been completed with the applicable loan amount, interest rate, payment schedules, and all other transaction related information;

- A cash flow and combined DSCR analysis for the term of the Non-Fannie Mae Subordinate Loan. The Lender must evaluate the impact of varying payment amounts that may be due under the Non-Fannie Mae Subordinate Loan;

- The Lender must:
  - complete a physical inspection of the Property dated no earlier than 30 days before the date of the Borrower's request to evaluate the then current condition of the Property; and
□ assess whether the funds held in the Replacement Reserve are adequate given the condition of the Property.

If the Lender's inspection of the Property reveals that the Property is not being properly maintained, the Borrower’s request for consent to a Non-Fannie Mae Subordinate Loan will not be approved by Fannie Mae, unless (i) the Borrower's required ongoing deposits to the Replacement Reserve are increased (or if no Replacement Reserve has been funded, a Replacement Reserve is established with ongoing funding requirements), or (ii) the Borrower makes the repairs identified by the Lender prior to the origination of the Non-Fannie Mae Subordinate Loan;

■ For all transactions in which the Borrower is a Cooperative Organization, the Lender must analyze the potential impact of the Non-Fannie Mae Subordinate Loan on the cash flow associated with any non-owner-occupied units in the Property. Because owner-occupants hypothetically could be called upon to cover the aggregate negative cash flow (e.g., the sum of the combined rents from non-owner-occupied units minus the sum of the maintenance fees on all non-owner-occupied units) through an increased Cooperative Maintenance Fee, the Lender must analyze the potential impact of such an increase. Subordinate financing would be unacceptable if the potential Cooperative Maintenance Fee increase to the owner-occupants exceeds 10% of the then current Cooperative Maintenance Fee. Where the potential Cooperative Maintenance Fee increase is greater than 10%, Fannie Mae will consider requests for approval of the Non-Fannie Mae Subordinate Loan on a case-by-case basis.

Once Fannie Mae approves the request for placing a subordinate lien against the Property, the Borrower and the subordinate lender may execute the subordinate Mortgage documents and the Subordination Agreement. The Lender may charge a reasonable review fee and otherwise bill the Borrower to reimburse the Lender's out-of-pocket costs for processing subordinate financing requests.

**Section 204.05. Transfer of Ownership Interests**

The terms of the Multifamily Loan Agreement or Security Instrument provide that any pledge of certain direct or indirect ownership interests in the Borrower that constitute a “Transfer” requires the Lender’s prior consent. The Lender may not consent to any such pledge of ownership interests without Fannie Mae’s prior written approval.
Part IIIC – Underwriting for Special Product Features or Executions

Chapter 3 – Refinancing Portfolio Mortgage Loans

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Chapter 3 – Refinancing Portfolio Mortgage Loans

Section 301. Refinancing Portfolio Mortgage Loans (10/13/14)

Section 301.01. General

This Chapter describes which Portfolio Mortgage Loans are eligible for refinancing by the Lender and purchase by Fannie Mae, including a streamlined underwriting process for certain eligible Portfolio Mortgage Loans.

A. Good Borrower Prerequisite

Portfolio Mortgage Loans are eligible for refinancing by the Lender and purchase by Fannie Mae only where the Borrower has demonstrated a commitment to its obligations under the Mortgage Loan by maintaining the Property in good physical condition, providing competent Property management services, and complying with the requirements under the Loan Documents.

B. Compliance with Guide and Multifamily Underwriting Standards

All Portfolio Mortgage Loans refinanced under this Chapter must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

Section 301.02. Refinancing with Choice Refinance Loans or Refi Plus Mortgage Loans

In order to retain high quality Mortgage Loans, Portfolio Mortgage Loans that comply with the applicable Multifamily Underwriting Standards and that meet the respective eligibility requirements of Section 302 of this Chapter may be refinanced by the Lender and Purchased by Fannie Mae as Choice Refinance Loans. Choice Refinance Loans utilize the underwriting requirements set forth in Section 302 of this Chapter allowing for streamlined underwriting requirements and reduced origination costs.
Section 301.03. Refinancing as a New Origination

A Portfolio Mortgage Loan may be refinanced by the Lender and purchased by Fannie Mae even if such Portfolio Mortgage Loan does not meet the eligibility requirements of this Chapter, or the Borrower or the Lender chooses not to refinance such Portfolio Mortgage Loan as a Choice Refinance Loan. These Portfolio Mortgage Loans are not eligible for the streamlined underwriting requirements set forth in Section 302 of this Chapter and the Mortgage Loan must be underwritten, committed, and delivered pursuant to the applicable requirements of:

- Part III;
- the Multifamily Underwriting Standards; and
- Part IVA and Part IVB.

Section 301.04. In Place Loans

A Portfolio Mortgage Loan that does not meet the applicable Multifamily Underwriting Standards may be eligible for refinancing by the Lender and purchase by Fannie Mae as an In Place Loan, as provided in Part V, Chapter 8.

Section 301.05. Portfolio Mortgage Loans Not Eligible for Purchase by Fannie Mae

The following are not eligible for Purchase by Fannie Mae:

- any Portfolio Mortgage Loan where the Borrower has breached its obligations under the Loan Documents; or
- any Portfolio Mortgage Loan, regardless of the Underwritten DSCR, that is not expected to be able to recover sufficient credit quality to repay the refinanced Mortgage Loan without individually negotiated debt relief.

Section 302. Choice Refinance Loans (10/13/14)

Section 302.01. Eligibility Requirements

The streamlined underwriting process for Choice Refinance Loans described in this section is available for Portfolio Mortgage Loans meeting the following requirements.

| Lender: | The Lender must be the current Servicer of the Portfolio Mortgage |
### Loan History:
The Portfolio Mortgage Loan must meet the following criteria:

- During the 3 years immediately preceding the proposed refinance, the Portfolio Mortgage Loan must have a good payment history with no delinquencies of 60 days or more.
- The Lender must confirm that there have been no unauthorized assumptions or changes in ownership, and that no unauthorized Liens have been placed against the Property.
- There must be no declared non-monetary defaults that have remained uncured for more than 120 days.
- The Portfolio Mortgage Loan must not be on the current Fannie Mae Watch List.
- The Portfolio Mortgage Loan must have been underwritten and delivered in accordance with then applicable provisions of the Guide, and must be serviced in accordance with the Guide.

### Property:
The Property must meet the following criteria:

- The Lender must be able to demonstrate that the Property is operating on a stabilized basis. If the Property is not stabilized, the Lender must address this in its underwriting.
- The most recent Property inspection must indicate an overall rating of 1 or 2.
- The inspection of the Property at underwriting must not reveal any adverse change in Property condition, normal wear and tear excepted, or any life safety issues.

### Additional Collateral:
The Portfolio Mortgage Loan must not have a Letter of Credit or other cash collateral as additional collateral.

### Section 302.02. Pre-Review Mortgage Loans

**A. General**

Unless the Choice Refinance Loan complies with the requirements of Section 302.02.B. below, a Pre-Review Mortgage Loan is only eligible to use the Choice Refinance Loan guidelines with the prior approval of the Fannie Mae Deal Team.

**B. Exception for Certain Pre-Review Mortgage Loan Categories**
No prior approval is required from Fannie Mae for the Lender to underwrite a Choice Refinance Loan, if:

- the Portfolio Mortgage Loan and the Choice Refinance Loan fall under the same Pre-Review categories listed in Section I.B. of the Multifamily Underwriting Standards, and those same Pre-Review categories were previously approved by Fannie Mae for the Portfolio Mortgage Loan; or

- the Choice Refinance Loan falls under the Pre-Review categories listed in Section I.B. of the Multifamily Underwriting Standards, and the Choice Refinance Loan has the same structure as the Portfolio Mortgage Loan even though the Portfolio Mortgage Loan was not a Pre-Review Mortgage Loan at the time the Commitment for the Portfolio Mortgage Loan was approved by Fannie Mae.

C. Exception for Prior Approval for Non-Contiguous Parcels

A Choice Refinance Loan secured by a Property comprised of non-contiguous parcels may be underwritten by the Lender without Fannie Mae approval of the non-contiguous parcel structure if the non-contiguous parcel structure approved for the Portfolio Mortgage Loan will be the same as that on the Choice Refinance Loan.

Section 302.03. Streamlined Underwriting Requirements

The requirements set forth in this section indicate the minimum standards for underwriting Choice Refinance Loans. Although the underwriting, due diligence, and documentation required for newly originated Choice Refinance Loans have been streamlined, the Lender is required to provide the same selling and servicing representations and warranties as are required for newly originated Mortgage Loans.

A. Property Zoning

The Lender must confirm that there has been no change in zoning affecting the Property. However, a new zoning and non-conforming use analysis is not required for a Property that is a non-conforming use if the Property zoning has not changed since the time the Mortgage Loan was underwritten initially. If the Property has been rezoned causing it to become a non-conforming use, or rezoned to restrict further the ability of an existing non-conforming use to rebuild, the Lender must perform a non-conforming use analysis and otherwise comply with the requirements of Part IIIA, Section 308.

B. Appraisals

A new Appraisal is required for the Choice Refinance Loan.
C. Physical Condition Assessment (“PCA”)

A PCA is required, but the Lender may use the Streamlined Physical Condition Assessment Requirements (Form 4099.A). The PCA requirements for Small Mortgage Loans are set forth in Part IIIB, Chapter 9.

D. Environmental Site Assessment

If either (i) a Phase I Environmental Site Assessment was performed for the origination of the Portfolio Mortgage Loan, or (ii) in the case of a Small Mortgage Loan, the environmental requirements of Part IIIB, Chapter 9 were satisfied for the origination of the Portfolio Mortgage Loan by the Lender, then a new or updated Phase I Environmental Site Assessment (or Phase II Environmental Site Assessment) is not required provided that the following conditions are met:

- the Borrower enters into an Environmental Indemnity Agreement;
- the Lender performs an environmental database search in accordance with the Environmental Screening using the ASTM E-1528-14 protocol, as revised or replaced from time to time, and determines that there are no adverse conditions that require further due diligence; and
- the Lender confirms that the Borrower is appropriately implementing any existing O&M Plans affecting the Property securing the Portfolio Mortgage Loan.

If the foregoing requirements are not met, then the Lender must satisfy the standard environmental due diligence procedures as described in Part IIIA, Section 320 or, for Small Mortgage Loans, Part IIIB, Chapter 9.

E. Seismic

The Lender must comply with the requirements of Part IIIA, Section 321.

F. Title Insurance

A new title insurance policy is required.

G. Survey

A new survey of the Property is not required, so long as:

- the new mortgagee title insurance policy includes all title exceptions, including those that would appear on the most recent survey provided by the Borrower,
whether the original survey for the Portfolio Mortgage Loan or a subsequent survey;

- the Borrower certifies that there have been no changes and no new improvements to the Property since the later of (i) the date of the survey referenced in the original title policy, or (ii) the date of the most recent survey; and

- the Lender’s inspection of the Property reveals no evidence of new construction on the site or encroachments on the site from construction on adjoining properties.

If the foregoing requirements are not met, then the survey requirements set forth in Part IIIA, Section 325 must be satisfied.

H. Borrower Structure and Experience

A new Underwriting Certificate is required from the Borrower, any guarantor of the Mortgage Loan and any Key Principal. In addition, the Lender must:

- confirm the original underwriting of the organizational structure, experience and creditworthiness of the Borrower, Key Principal and Principal in accordance with Part IIIA, Chapter 4;

- identify the Key Principals and Principals of the Borrower, and
  - perform an ACheck for each Borrower, Key Principal, and Principal; and
  - determine that each Borrower, Key Principal, and Principal is not (i) a “specially designated national and blocked person” on the Specially Designated Nationals List maintained by OFAC; (ii) exhibiting evidence of “red flags” that indicate a high risk of money-laundering or other criminal activity; or (iii) included on the SCP List;

- obtain updated copies of the organizational documents of the Borrower and the Key Principal and confirm that the Borrower’s organization meets the requirements set forth in Part IIIA, Chapter 4;

- confirm that no unauthorized change has been made to the organizational structure and organization documents of the Borrower; and

- obtain a new good standing certificate from the jurisdiction where the Borrower is organized.

I. Borrower Credit
At a minimum, the Lender must obtain and review the financial statements for the Borrower, Key Principals and Principals, and confirm that any such individuals meet the FICO requirements set forth in Part IIIA, Section 405. For Small Mortgage Loans, in addition to the preceding requirements, the Lender must also confirm compliance with the required net worth and liquid asset requirements set forth in Part IIIB, Chapter 9. If the Borrower, Key Principals and Principals have submitted financial statements within the past 12 months, the Lender may accept, as an Exhibit or Schedule to the Multifamily Loan Agreement, a certification from the Borrower that there has been no material adverse change from the financial condition or credit standing of the Borrower, Key Principals and Principals reflected in such statements; otherwise the Lender must obtain and review new financial statements.

J. **Property Management**

The documentation requirements regarding Property management may be waived for Choice Refinance Loans. The Lender-delegated waiver decision and rationale must be included in the Transaction Approval Memo.

K. **Full Funding of Replacement Reserve**

The Lender may waive full funding of the Replacement Reserve for all Choice Refinance Loans unless the Property is located in a Pre-Review Market not eligible for delegation at any Tier as set forth in Note 2 in Section II of the Multifamily Underwriting Standards. If the Lender waives full funding of the Replacement Reserve, the Lender must comply with the Loan Document requirements in Part IIIA, Section 318.

L. **Real Estate Tax and Insurance Escrow Requirements**

The Lender may waive monthly escrow deposits for Taxes and Insurance (“T&I”) for a Choice Refinance Loan only if a T&I waiver was previously approved by Fannie Mae for the Portfolio Mortgage Loan. If the Lender waives the T&I escrow deposit, the Lender must comply with the requirements of Part IIIA, Section 319.

**Section 302.04. Prepayment Premium and Origination Cost Incentives**

Please see Part IVA, Chapter 2 for the availability of Borrower incentives for reduced Prepayment Premiums and Origination Fees in connection with a Choice Refinance Loan.
Section 302.05. Change of Property Ownership

If at the time of the refinance of the Portfolio Mortgage Loan, the Property is being sold to a new owner, the Lender may use the underwriting and origination requirements for Choice Refinance Loans described in subsections A through F of Section 302.03; however, the Lender must adhere to the requirements in Part IIIA, Chapter 4 for newly originated Mortgage Loans with respect to the underwriting of the Borrower, Key Principals and Principals. A Portfolio Mortgage Loan that has been assumed from the original owner prior to refinancing and Purchase by Fannie Mae as a Choice Refinance Loan may use the underwriting and origination procedures identified in all of the subsections in Section 302 of this Chapter, if applicable.

Section 303. Refi Plus Mortgage Loans (10/13/14)

For availability of Refi Plus Mortgage Loans, the Lender must contact the Fannie Mae Deal Team.

Section 304. Waivers and Approvals Obtained at Origination of the Portfolio Mortgage Loan (10/13/14)

Depending on the type of waiver or special approval granted in connection with the Purchase by Fannie Mae of the Portfolio Mortgage Loan, the Lender may be required to obtain re-approval of the waiver for the refinance of the Portfolio Mortgage Loan under the same terms and conditions. The Lender must contact the Fannie Mae Deal Team for any waivers not described below.

Section 304.01. Underwriting Waivers

Except for waivers of the Multifamily Underwriting Standards, underwriting waivers obtained for the Purchase by Fannie Mae of the Portfolio Mortgage Loan are grandfathered for the refinance of the Portfolio Mortgage Loan so long as the Lender confirms that the conditions under which the original waiver was approved have not changed. The Lender must include copies of all waivers, whether grandfathered or newly issued, in the Mortgage Loan Delivery Package.

Section 304.02. Pricing Waivers

Pricing waivers approved in connection with the original Purchase by Fannie Mae of the Portfolio Mortgage Loan are not applicable to the refinance of the Portfolio Mortgage Loan.
Section 305. Refinance Guidelines for Portfolio Mortgage Loans Not Originated by the Refinancing Lender and Non-Fannie Mae Loans (10/13/14)

Section 305.01. Portfolio Mortgage Loan Serviced by Another Lender

If the Lender is refinancing a Portfolio Mortgage Loan that is currently serviced by another Lender or that has been serviced by the refinancing Lender for less than 12 months, the streamlined underwriting and origination requirements for Choice Refinance Loans described in this Chapter are not available, and the Lender must adhere to the applicable requirements of Part III and the applicable Multifamily Underwriting Standards. For such a refinancing, reduced prepayment premiums premium origination incentives are not delegated to either the refinancing Lender or the servicing Lender.

Section 305.02. Lender Active Only as a Servicer

A Lender that is not actively selling Mortgage Loans to Fannie Mae must contact other Fannie Mae-approved Lenders to refinance a Portfolio Mortgage Loan. Such other Lender refinancing a Mortgage Loan currently being serviced by the inactive Lender must adhere to the applicable requirements of Part III and the applicable Multifamily Underwriting Standards for such Mortgage Loan. If the servicing-only Lender is not able to arrange financing through another Lender, the inactive Lender may be permitted to refinance the Portfolio Mortgage Loan to avoid a default at the Maturity Date and the subsequent loss. In these instances, the Lender must contact the Fannie Mae Deal Team to obtain permission to refinance the Portfolio Mortgage Loan.

Section 305.03. Refinance of a Non-Fannie Mae Loan

If the Lender has been servicing a non-Fannie Mae loan secured by a multifamily residential property and such loan is being refinanced by the Lender, the streamlined underwriting and origination requirements for Choice Refinance Loans described in this Chapter are not available for the refinance of such loan. For such loan to be eligible for Purchase by Fannie Mae, the Lender must adhere to all of the applicable requirements of Part III, and the applicable Multifamily Underwriting Standards.
Part IIIC – Underwriting For Special Product Features or Executions

Chapter 4 – Interest Rate Hedges

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Chapter 4 – Interest Rate Hedges

Section 401. Overview (07/15/16)

Section 401.01. When Required

The following products require an externally-purchased Interest Rate Hedge:

- DMBS;
- Structured ARM;
- Variable rate Credit Enhancement Mortgage Loans; and
- Variable rate taxable tails associated with variable rate Credit Enhancement Mortgage Loans.

Section 401.02. Interest Rate Hedge Providers

Bids for an Interest Rate Hedge may only be obtained from providers currently approved by Fannie Mae, and approval is further subject to the acceptability of the provider’s documentation. The Lender must contact the Fannie Mae Deal Team to determine eligibility of hedge providers.

Section 401.03. Delivery of Interest Rate Hedge Information

Interest Rate Hedge information must be delivered to Fannie Mae at the time that the Mortgage Loan is being delivered into the applicable Multifamily Committing and Delivery System and will vary by product:

<table>
<thead>
<tr>
<th>Product</th>
<th>Committing and Delivery System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Asset Bond Credit Enhancements</td>
<td>Use the Interest Rate Hedge Entry Form (Form 4643) available on <a href="http://www.efanniemae.com">www.efanniemae.com</a>, and upload Form 4643 into CESIR</td>
</tr>
<tr>
<td>Single Asset Structured ARM Loans</td>
<td>Enter the Interest Rate Hedge information under the Hedge section of the Multifamily Committing and Delivery System</td>
</tr>
<tr>
<td>All DMBS and all variable rate transactions, regardless of product type, related to a Bulk Delivery or Credit Facility transaction</td>
<td>Enter the Interest Rate Hedge information under the Hedge section of the Multifamily Structured Facilities Management System (“MSFMS”)</td>
</tr>
</tbody>
</table>
Simultaneously with the delivery of the above information, the Lender must send a copy of the Interest Rate Hedge Confirmation issued by the provider via email to the Fannie Mae Acquisitions Team at Interest_Rate_Hedge@fanniemae.com.

Section 401.04. Review of Hedge Documentation by Fannie Mae Outside Counsel

For all transactions requiring an Interest Rate Hedge, Fannie Mae will engage outside counsel to review the bid package and documents each time an Interest Rate Hedge is acquired for the transaction. The Lender is responsible for payment of the fees and costs of Fannie Mae's outside counsel. The Lender may require the Borrower to pay these fees and costs, and may also require the Borrower to fund a reserve for the payment of legal fees and expenses.

Section 402. Interest Rate Cap Requirements (07/15/16)

Section 402.01 Interest Rate Caps for DMBS and Structured ARM

A. General

An Interest Rate Cap is required for each DMBS and Structured ARM Loan transaction, and an Interest Rate Cap Agreement must be in place for the transaction at all times until the maturity date of the DMBS Mortgage Loan or Structured ARM Loan. Fannie Mae will consider the use of an Interest Rate Swap or other Interest Rate Hedge agreement in lieu of an Interest Rate Cap on a case-by-case basis (see Section 403 below).

The notional amount of the initial Interest Rate Cap must be equal to the original principal amount of the DMBS Mortgage Loan or Structured ARM Loan for the entire term of the Interest Rate Cap. If the initial Interest Rate Cap expires prior to the maturity date of the DMBS Mortgage Loan or Structured ARM Loan, a second Interest Rate Cap must be purchased to cover the remaining term of the DMBS Mortgage Loan or Structured ARM Loan. The notional amount of any subsequent Interest Rate Cap must be equal to the outstanding principal balance of the DMBS Mortgage Loan or Structured ARM Loan at the time that the subsequent Interest Rate Cap is to become effective, for the entire term of the subsequent cap. Interest Rate Caps may be purchased in advance but the initial Interest Rate Cap must be effective on the date of the closing and each subsequent Interest Rate Cap must be effective on the maturity date of the existing Interest Rate Cap.

B. Determining the Cap Strike Rate

The Cap Strike Rate is the maximum specified interest rate that will trigger a payment obligation by the Interest Rate Cap provider.
The Cap Strike Rate at which subsequent Interest Rate Caps are purchased must not exceed the Cap Strike Rate at which the initial Interest Rate Cap was purchased.

The Cap Strike Rate shall be no greater than the interest rate, calculated using an underwritten debt service constant that includes amortization, if applicable, that produces the minimum DSCR required for the Pricing and Underwriting Tier of the Mortgage Loan when the following items are added to the Cap Strike Rate:

- For DMBS, the Guaranty Fee Rate and Servicing Fee Rate;
- For a Structured ARM Loan, the Mortgage Margin (Fannie Mae's Required Net Margin plus the Lender's Servicing Fee Rate); and
- If an Interest Rate Cap for the full term of the Mortgage Loan is not purchased at the Mortgage Loan Origination Date, a Cap Cost Factor (see Section 402.01.D. below).

The Cap Strike Rate, plus (i) combined Guaranty Fee Rate and the Servicing Fee Rate or the Mortgage Margin, as applicable, and (ii) the Interest Rate Cap escrow deposits, must provide the minimum required Underwritten DSCR for the Pricing and Underwriting Tier of the Mortgage Loan.

C. Minimum Interest Rate Cap Term

The minimum term of each Interest Rate Cap shall be the lesser of (i) 5 years, or (ii) the remaining term of the DMBS or Structured ARM Loan. When a new Interest Rate Cap is purchased, the previous Interest Rate Cap may be released from the Lien granted to Fannie Mae if the term of the new Interest Rate Cap begins on or prior to the expiration of the term of the previous Interest Rate Cap.

The initial Interest Rate Cap must be in place on the Mortgage Loan Origination Date and terminate on the date that is no earlier than the last day of the 60th month of the Mortgage Loan term.

D. Cap Cost Factor Included in the Variable Underwriting Rate

The Lender must include, as part of the Variable Underwriting Rate used to calculate the minimum DSCR, a cap cost factor based on the term of the Mortgage Loan and the term of the Interest Rate Cap initially purchased ("Cap Cost Factor"). If the term of the initial Interest Rate Cap purchased is equal to the term of the Mortgage Loan, no Cap Cost Factor is included in the Variable Underwriting Rate. For example, if a 5-year Interest Rate Cap is purchased for a Mortgage Loan with a 5-year term, there is no Cap Cost Factor.

The Cap Cost Factor shall be equal to (i) 100 percent of the estimated cost of the subsequent Interest Rate Cap that must be purchased when the term of the initial Interest Rate
Cap expires, divided by (ii) the term of the initial Interest Rate Cap purchased. Examples of the Cap Cost Factor computation under several alternatives are as follows:

1. **Five-Year Interest Rate Cap and Seven-Year Loan Term**

   The Lender must include in the Variable Underwriting Rate an annual Cap Cost Factor equal to one-fifth (1/5th) of the estimated cost of a subsequent Interest Rate Cap with a 2-year term and a Cap Strike Rate that is equal to the Cap Strike Rate of the initial Interest Rate Cap purchased.

   For example, if a 2-year Interest Rate Cap at the initial Cap Strike Rate costs 20 basis points, the Lender would add 4 basis points to the Variable Underwriting Rate (20 basis points divided by 5 years).

2. **Five-Year Interest Rate Cap and Ten-Year Loan Term**

   The Lender must include in the Variable Underwriting Rate an annual Cap Cost Factor equal to one-fifth (1/5th) of the estimated cost of a subsequent Interest Rate Cap with a 5-year term and a Cap Strike Rate that is equal to the Cap Strike Rate of the initial Interest Rate Cap purchased.

   For example, if a 5-year Interest Rate Cap at the initial Cap Strike Rate costs 100 basis points, the Lender would add 20 basis points to the Variable Underwriting Rate (100 basis points divided by 5 years).

3. **Seven-Year Interest Rate Cap and Ten-Year Loan Term**

   The Lender must include in the Variable Underwriting Rate an annual Cap Cost Factor equal to one-seventh (1/7th) of the estimated cost of an Interest Rate Cap with a 3-year term and a Cap Strike Rate that is equal to the Cap Strike Rate of the initial Interest Rate Cap purchased.

   For example, if a 3-year Interest Rate Cap at the initial Cap Strike Rate costs 49 basis points, the Lender would add 7 basis points to the Variable Underwriting Rate (49 basis points divided by 7 years).

E. **Establishment of Interest Rate Cap Reserves**

   The Borrower is required to establish a cash reserve to fund the future purchase of subsequent Interest Rate Caps whenever an Interest Rate Cap is purchased with a term that is less than the term of the Mortgage Loan. The reserve requirements are as follows:
1. **Funding Interest Rate Cap Reserves**

A cash reserve for the purchase of a subsequent Interest Rate Cap must be funded with each monthly Mortgage Loan payment that is made during the term of an initial Interest Rate Cap Agreement with a term of 5 years. If an Interest Rate Cap with a term of greater than 5 years is purchased, the monthly reserve payments of the purchase of a subsequent Interest Rate Cap will commence on the date that is 5 years prior to the expiration of the existing Interest Rate Cap.

The monthly reserve payments for the first 12-month period will be determined using the estimated cost of the subsequent Interest Rate Cap that must be purchased. The subsequent Interest Rate Cap must have a term that is equal to the remaining term of the Mortgage Loan and a Cap Strike Rate that is equal to the Cap Strike Rate of the initial Interest Rate Cap purchased. For example, assume that a 5-year Interest Rate Cap is initially purchased for a Loan with a 10-year term. If the initial Interest Rate Cap is purchased with a 6.50% Cap Strike Rate and the cost of a 5-year Interest Rate Cap with a 6.50% Cap Strike Rate is $250,000, the monthly reserve for the first 12-month period would be $4,166.67 ($250,000 cost divided by 60 months).

2. **Interest Rate Cap Price Adjustment:**

At the end of each 12-month period, the Lender must evaluate the adequacy of the reserve to determine if the cost of the applicable Interest Rate Cap has increased based on the existing market conditions. If the estimated cost of the subsequent Interest Rate Cap has increased, the Lender must adjust the monthly reserve payment to ensure that sufficient funds will be available for the purchase of the subsequent Interest Rate Cap by the end of the reserve period.

No adjustment shall be made to the reserve if the estimated cost of the subsequent Interest Rate Cap has decreased. Any amount left in the reserve account after purchase of the subsequent Interest Rate Cap may be refunded to the Borrower.

F. **Cap Contract Documentation and Delivery Requirements**

Each Interest Rate Cap shall be subject to the following requirements:

1. **Interest Rate Cap Provider Requirements**

Each prospective Interest Rate Cap provider must meet the minimum requirements stated in Section 401.02 of this Chapter and must be approved by Fannie Mae. In addition, the Interest Rate Cap must be documented on forms acceptable to Fannie Mae.
2. Cap Provider Payment

Each Interest Rate Cap must provide for payment by the Interest Rate Cap provider when either the 1-Month LIBOR Index for the one-month Structured ARM Loan or the 3-Month LIBOR Index for the DMBS and the 3-month Structured ARM Loan exceeds the Cap Strike Rate for a monthly or quarterly settlement on the first day of the month to correspond with the Structured ARM Loan payment dates and the appropriate DMBS rollover dates.

Payments by the Interest Rate Cap provider must be made directly to the Lender and will be paid over to the Borrower, assuming no Borrower default, only after the Lender receives payments in full for that month of all amounts due under the Mortgage Loan.

3. Timing

The Borrower must have accepted a bid in writing for the initial Interest Rate Cap from an approved provider prior to the time the Lender delivers the Mortgage Loan to Fannie Mae. A copy of the Interest Rate Cap Agreement must be delivered to Fannie Mae at the time that the Mortgage Loan is delivered.

4. Purchase Price

The entire purchase price for an Interest Rate Cap must be paid to the Interest Rate Cap provider at the time of issuance of the Interest Rate Cap Agreement.

5. Pledge to Fannie Mae

The Borrower must pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae as additional collateral for the Mortgage Loan and execute the Pledge, Interest Rate Cap Reserve and Security Agreement (Form 6442).

6. Other Documentation

The Lender must deliver all other documentation required by Fannie Mae, including the Pledge, Interest Rate Cap Reserve and Security Agreement (Form 6442).

Section 402.02. Interest Rate Caps for Variable Rate Credit Enhancement Mortgage Loan Transactions

A. General

If the Mortgage Loan is originated in connection with a Forward Commitment described in this Guide, the Interest Rate Cap must be in place on the date the Mortgage Loan converts to a
permanent Mortgage Loan. In all other instances and at all times that the Bonds are in a weekly variable rate mode, an Interest Rate Cap (or Swap) Agreement must be in place for the transaction.

The notional amount of the initial Interest Rate Cap must be not less than the unpaid principal balance of the first Mortgage Loan as of the date of closing of such Mortgage Loan. The initial Interest Rate Cap may be put into place prior to the Mortgage Loan Origination Date, and each subsequent Interest Rate Cap may be put into place prior to the maturity of an existing Interest Rate Cap.

The Underwriting Interest Rate for Mortgage Loans originated as a Forward Commitment shall be subject to adjustment based on the cost of the first Interest Rate Cap purchased that conforms to the requirements set forth in this Section.

If a conforming Interest Rate Cap is not purchased prior to the Bond closing date, the adjustment to the Underwriting Interest Rate described in Section 402.02.D. of this Chapter shall be based on the estimated cost of an Interest Rate Cap with a 5-year term determined not more than 7 days prior to the closing date of the Bonds.

B. Determining the Cap Strike Rate

The Cap Strike Rate is the maximum specified interest rate that will trigger a payment obligation by the Interest Rate Cap provider.

The Cap Strike Rate at which subsequent Interest Rate Caps are purchased must not exceed the Cap Strike Rate at which the initial Interest Rate Cap was purchased.

The Cap Strike Rate shall be 6%, or if an Underwriting Bond Coupon Rate greater than 6% is used to underwrite the Mortgage Loan, the Borrower may purchase a cap with a Strike Rate that is equal to the Underwriting Bond Coupon Rate, as described in the Bond Credit Enhancement Chapter in Part IIC of this Guide. The Borrower may choose to purchase an Interest Rate Cap with a Strike Rate lower than 6% but this will not reduce the minimum Underwriting Bond Coupon Rate of 6% used to underwrite the Mortgage Loan.

C. Minimum Interest Rate Cap Term

The minimum term of each Interest Rate Cap shall be 5 years. When a new Interest Rate Cap is purchased, the previous Interest Rate Cap may be released from the Lien granted to Fannie Mae if the date of the new Interest Rate Cap is effective prior to expiration of the previous Interest Rate Cap.

The initial Interest Rate Cap must be in place on the Mortgage Loan Origination Date and terminate on a date which is no earlier than the fifth anniversary of the Mortgage Loan Origination Date.
Lenders may utilize an existing Interest Rate Cap required by a construction lender with a remaining term of less than 5 years, so long as the following requirements are observed:

- the remaining term of the Interest Rate Cap must be at least 3 years;
- the terms of the existing Interest Rate Cap conform to the requirements for Interest Rate Caps described herein;
- the Interest Rate Cap provider continues to meet Fannie Mae requirements;
- the Interest Rate Cap escrow account is fully funded on the conversion date, as though escrow payments had been made in accordance with the requirements of this Chapter from the date the Interest Rate Cap was originally purchased;
- the Interest Rate Cap reserve for the subsequent Fannie Mae conforming Interest Rate Cap is fully funded over the remaining term of the existing Interest Rate Cap; and
- the Interest rate cap is assigned to Fannie Mae and the form of Interest Rate Cap conforms to standard Fannie Mae documentation requirements.

D. Cap Cost Factor Adjustment to the Variable Underwriting Rate

The Lender must increase the Variable Underwriting Rate by an amount (the “Cap Cost Factor”) equal to one-fifth (1/5th) of the cost of an Interest Rate Cap with a 5-year term and a Cap Strike Rate that is equal to the Cap Strike Rate of the first Interest Rate Cap purchased.

For example, if a 5-year Interest Rate Cap at the initial Cap Strike Rate costs 140 basis points, the Lender would add 28 basis points to the Variable Underwriting Rate of the Mortgage Loan (140 basis points divided by 5 years).

E. Establishment of Interest Rate Cap Reserves

The Borrower is required to establish a cash reserve to fund the future purchase of subsequent Interest Rate Caps whenever an Interest Rate Cap is purchased. The reserve requirements are as follows:

1. Funding Interest Rate Cap Reserves

A cash reserve for the purchase of a subsequent Interest Rate Cap must be funded with each monthly Mortgage Loan payment over the 60-month term of an initial 5-year Interest Rate Cap Agreement.

The monthly reserve payments for the first 12 month period will be determined using the cost of an Interest Rate Cap with a 5-year term and a Cap Strike Rate that is equal to the Cap Strike Rate of the first Interest Rate Cap purchased. For example, if the first Interest Rate Cap is purchased with a 6.0% Cap Strike Rate and the cost of a 5-year
Interest Rate Cap with a 6.0% Cap Strike Rate is $140,000, the monthly reserve for the first 12-month period would be $2,333.33 ($140,000 cost divided by 60 months).

If an Interest Rate Cap with a term of greater than 5 years is purchased, the monthly reserve payments for the purchase of a subsequent Interest Rate Cap will commence on the date that is 5 years prior to the expiration of the existing Interest Rate Cap.

2. Interest Rate Cap Price Adjustment

At the end of each 12-month period, the Lender must evaluate the adequacy of the reserve to determine if the cost of the applicable Interest Rate Cap has increased based on the existing market conditions. If the cost of the Interest Rate Cap has increased, the Lender must adjust the monthly reserve payment to ensure that sufficient funds will be available for the purchase of the subsequent Interest Rate Cap by the end of the reserve period.

No adjustment shall be made to the reserve if the cost of the Interest Rate Cap has decreased. Any amount left in the reserve account after purchase of the next Interest Rate Cap may be refunded to the Borrower or used to fund the subsequent reserve, and the reserving cycle will begin again to match the term of the new Interest Rate Cap.

3. Cap Provider Payment

Each Interest Rate Cap must provide for payment by the Interest Rate Cap provider when the Bond Market Association Municipal Swap Index ("BMA"), also known as the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA"), exceeds the Cap Strike Rate on average over a monthly period and for a monthly settlement on the first or fifteenth of the month to correspond with the Bond payment dates.

Payment by the Interest Rate Cap provider will be made directly to the Lender, or in some cases, to the Bond Trustee, and will be paid over to the Borrower, assuming no Borrower default, after the Lender or, if applicable, the Bond Trustee receives payments in full for that month of amounts due under the Bond Trust Indenture and the Bonds. The Lender must notify Fannie Mae and, if applicable, the Bond Trustee promptly upon the Borrower's default under the Mortgage Loan or Reimbursement Agreement to suspend the Bond Trustee’s payment to the Borrower if a default occurs.

4 Timing

The Borrower must have accepted a bid for the initial cap from an approved provider prior to the time the Lender requests a Commitment through the Multifamily Committing and Delivery System.
5. **Purchase Price**

The purchase price for an Interest Rate Cap must be paid at the time of issuance of the Interest Rate Cap Agreement.

6. **Assignment to Fannie Mae**

The Borrower's interest in the Interest Rate Cap must be assigned to Fannie Mae. The documentation required to effectuate this assignment will be provided by Fannie Mae's legal counsel.

**Section 402.03. Structured Cap for MAH Variable Rate Credit Enhancement Mortgage Loans**

A 15-year structured Interest Rate Cap may be used for any LIHTC variable rate Credit Enhancement Mortgage Loan transaction conforming to the following requirements:

<table>
<thead>
<tr>
<th>Item</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cap Term</td>
<td>15-year term</td>
</tr>
<tr>
<td><strong>Amortization</strong></td>
<td>Amortization will be applied to reduce the notional amount of the Interest Rate Cap at the end of the each 5-year increment. Interest Rate Cap amortization must match amortization on the Bonds as projected in the principal reserve fund (PRF) schedule. At no time may Interest Rate Cap amortization result in a notional Interest Rate Cap amount that is lower than the unpaid principal balance of the Bonds, less the balance of funds in the PRF, excluding earnings. Any necessary adjustment to the outstanding notional amount of the Interest Rate Cap at the time of adjustment will be the obligation of the Borrower.</td>
</tr>
<tr>
<td><strong>Amortization - Immediate Funding Transactions</strong></td>
<td>Immediate Starting Interest Rate Cap: A 15-year immediate starting Interest Rate Cap will amortize at the end of the 5th and 10th Interest Rate Cap years based on the unpaid principal balance (UPB) of the Bonds at that time, less any balance in the PRF. Forward Starting Interest Rate Cap: A 3-year forward starting, 15-year Interest Rate Cap (18 year total term) will amortize at the end of the 8th and 13th Interest Rate Cap years based on the UPB of the Bonds at that time, less any balance in the PRF.</td>
</tr>
<tr>
<td>Item</td>
<td>Requirement</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Amortization – Forward Commitment</strong></td>
<td>Interest Rate Cap purchased at the close of a forward commitment transaction:</td>
</tr>
<tr>
<td><strong>Transactions</strong></td>
<td>A 15-year Interest Rate Cap is purchased at the close of a Forward Commitment transaction. When the Forward Commitment converts to permanent at the end of the forward period in year 3 (also the 3rd Interest Rate Cap year), the permanent Mortgage Loan will be sized and the Mortgage Loan amortization schedule will be established.</td>
</tr>
<tr>
<td></td>
<td>Based on the Mortgage Loan amortization schedule at conversion, the notional or outstanding balance of the Interest Rate Cap will be adjusted at the end of the 8th and 13th Interest Rate Cap years based on the UPB of the Bonds less any balance in the PRF.</td>
</tr>
<tr>
<td></td>
<td>Any necessary adjustment to the outstanding notional amount of the Interest Rate Cap at the time of adjustment will be the obligation of the Borrower.</td>
</tr>
<tr>
<td><strong>Interest Rate Cap purchased during a Forward Commitment transaction:</strong></td>
<td>A 15-year Interest Rate Cap is purchased during a Forward Commitment transaction (12 months from close). When the Forward Commitment converts to a permanent Mortgage Loan at the end of the forward period in year 3 (the 2nd Interest Rate Cap year), the permanent Mortgage Loan will be sized and the amortization schedule will be established.</td>
</tr>
<tr>
<td></td>
<td>Based on the amortization schedule at conversion, the notional balance of the Interest Rate Cap will be adjusted at the end of the 7th and 12th cap years based on the UPB of the Bonds less any balance in the PRF at that time.</td>
</tr>
<tr>
<td><strong>Cap Strike Rate</strong></td>
<td>The Interest Rate Cap strike rate will increase at the end of each 5-year increment, provided the Mortgage Loan passes the DSCR test and NCF requirement described below.</td>
</tr>
<tr>
<td></td>
<td>The initial Interest Rate Cap strike rate will be not less than 6.0%.</td>
</tr>
<tr>
<td></td>
<td>After the first 5-year increment, the Interest Rate Cap strike rate will increase by 50 basis points over the initial Interest Rate Cap strike rate. After the second 5-year increment, the Interest Rate Cap strike rate will increase by 100 basis points over the initial Interest Rate Cap strike rate.</td>
</tr>
<tr>
<td>Item</td>
<td>Requirement</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>As a condition to any adjustments in the Interest Rate Cap strike rate, a (i) NCF requirement and (ii) minimum DSCR test must be satisfied.</td>
</tr>
<tr>
<td><strong>Variable Underwriting Rate</strong></td>
<td>For purposes of determining the original Variable Underwriting Rate to be used when calculating the Interest Rate Cap strike rate, the Variable Underwriting Rate must include an amount equal to one-fifth of the cost of a 5-year Interest Rate Cap.</td>
</tr>
<tr>
<td><strong>NCF Requirement</strong></td>
<td>The NCF must be reflective of stabilized NCF trends over the term of the Mortgage Loan.</td>
</tr>
<tr>
<td><strong>DSCR Test Description</strong></td>
<td>As a condition to each adjustment in the Interest Rate Cap strike rate, Fannie Mae will require that a DSCR test be satisfied equal to a minimum actual DSCR of 1.0:1.0 at an assumed rate equal to the sum of (i) the original Variable Underwriting Rate for the transaction, and (ii) 50 basis points in the case of the first adjustment at the end of the first 5-year increment or 100 basis points in the case of the second adjustment at the end of the subsequent 5-year increment. For purposes of the DSCR test, the original Variable Underwriting Rate for a forward Mortgage Loan is the Variable Underwriting Rate used at the time of conversion. This Variable Underwriting Rate must include an amount equal to one-fifth of the cost of a 5-year Interest Rate Cap.</td>
</tr>
<tr>
<td><strong>DSCR Test Calculation</strong></td>
<td>The DSCR test must be administered with the following principles incorporated:</td>
</tr>
<tr>
<td></td>
<td><strong>Mortgage Loan Balance:</strong> The Mortgage Loan balance will be determined by subtracting (i) the amount on deposit in the PRF (less earnings) at the time of each adjustment from (ii) the expected average of the unpaid principal balance of the Mortgage Loan scheduled to be outstanding over the 12-month period immediately following each adjustment.</td>
</tr>
<tr>
<td></td>
<td><strong>Annual Debt Service Calculation:</strong> Annual debt service will be calculated based on interest owed on the UPB on the Mortgage Loan (calculated above), plus PRF deposits scheduled to be made by the Borrower over the 12-month period immediately following each adjustment.</td>
</tr>
</tbody>
</table>
|                             | The Borrower fully assumes the risk that the DSCR test will be met. Failure to comply with the DSCR test will either (i) prevent a scheduled increase to the strike rate, or (ii) if prior strike rate increases have occurred, require such increases to be reversed to the
<table>
<thead>
<tr>
<th>Item</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>strike rate at which the DSCR test is successful, not to be reduced to a strike rate below the original strike rate.</td>
</tr>
<tr>
<td></td>
<td>If the NCF requirement and DSCR test are not both met, the Borrower will be responsible for contacting the Interest Rate Cap broker or Interest Rate Hedge counterparty to effect an adjustment in the strike rate of the outstanding Interest Rate Cap.</td>
</tr>
<tr>
<td></td>
<td>Any cost associated with an adjustment to the outstanding Interest Rate Cap will be the obligation of the Borrower. Failure to make a necessary adjustment to the outstanding Interest Rate Cap will constitute an Event of Default under the Reimbursement Agreement.</td>
</tr>
</tbody>
</table>

**Section 403. Interest Rate Swap Requirements (07/15/16)**

Lenders requesting an Interest Rate Swap or other Interest Rate Hedge agreement must contact the Fannie Mae Deal Team to obtain approval. Interest Rate Swap transactions must meet the requirements set forth below.

**Section 403.01. Interest Rate Swap Amortization.**

The notional amount of the Interest Rate Swap must amortize in accordance with the principal payments made on the Structured ARM Mortgage Loan, the principal reductions at the time of rollover on the DMBS, or the scheduled payments made to the Principal Reserve Fund on the variable rate Credit Enhancement Mortgage Loan.

**Section 403.02. Underwriting**

**A. Interest Rate Swaps for DMBS, Structured ARM Loans, and Variable Rate Credit Enhancement Mortgage Loan with an Initial Swap Term of Less than 10 Years**

These transactions must be underwritten using the standard variable rate underwriting guidelines for the product. A Cap Escrow Factor, as described for each product earlier in this Chapter, must be included in the underwriting interest rate if the term of the Interest Rate Swap is less than the term of the Mortgage Loan.
B. Interest Rate Swaps for Variable Rate Credit Enhancement Mortgage Loans with an Initial Swap Term of 10 Years or Greater

Interest Rate Swaps for variable rate Credit Enhancement Mortgage Loans with an initial Swap term of 10 years of greater may be underwritten using the standard fixed rate underwriting guidelines for the Bond Credit Enhancement product. The Underwriting Interest Rate will be comprised of the following:

- the interest rate on the Interest Rate Swap; plus
- 5 bps for basis risk; plus
- the fee stack applicable to the variable rate Credit Enhancement Mortgage Loan.

A Cap Escrow Factor is not required in the underwriting for longer-term Interest Rate Swaps.

Section 403.03. Credit Enhanced Interest Rate Swaps

All credit enhanced Interest Rate Swap transactions will be Pre-Review. If a forward starting Interest Rate Swap is utilized, Fannie Mae’s credit enhancement obligation will not begin until the underlying Mortgage Loan converts to permanent financing. Fannie Mae will not credit enhance an Interest Rate Swap during the construction period of a Forward Commitment.

A. Transaction Requirements

In order to be eligible for Fannie Mae credit enhancement, an Interest Rate Swap transaction must be:

- a transaction that is $25 million or greater, and
- underwritten to at least a Tier 3 Level in accordance with the requirements of Part IIIA of this Guide.

B. Swap Term

A Swap term may be 5, 7, or 10 years. Fannie Mae may approve longer terms on a case-by-case basis. The standard hedge escrow will be required for an Interest Rate Swap with a term of less than 10 years if the term of the Mortgage Loan or credit enhancement facility on the underlying Mortgage Loan extends beyond the term of the Interest Rate Swap.

C. Swap Rate

The fixed rate on the Interest Rate Swap for a Credit Enhancement Mortgage Loan cannot exceed the rate used to underwrite the Mortgage Loan minus the Guaranty Fee Rate, Servicing Fee Rate, and Liquidity Fees, cap cost factor and other fees and expenses included in the Variable Underwriting Rater. The fixed rate on the Interest Rate Swap cannot exceed the 1-
Month or 3-Month LIBOR rate, as applicable, used to underwrite a DMBS or Structured ARM Loan, plus 300 basis points.

D. Pricing

A Swap Credit Enhancement Fee will be imposed by Fannie Mae. The Swap Credit Enhancement Fee must be included in the Variable Underwriting Rate used to size the Mortgage Loan.

E. Documentation Requirements

Transactions must be documented on the Fannie Mae approved ISDA Documents. Documents must include a provision requiring the Interest Rate Swap provider to provide a monthly mark-to-market valuation of the Swap to Fannie Mae. The Interest Rate Swap must be pledged to Fannie Mae.

F. Servicing

The Lender must service the Interest Rate Swap in order to ensure that all payments are made on a timely basis. The Lender must confirm that amounts due from the Borrower have been remitted to the provider on a timely basis. If payments are due to the Borrower, the Interest Rate Swap provider must make payment to the Lender who will in turn remit the amount received to the Borrower only after the Borrower has made the required monthly Mortgage Loan payment. Payments due on the Interest Rate Swap must match the payment dates on the Bonds. The Lender will be required to advance periodic Interest Rate Swap payments and credit enhancement fees that are not made by the Borrower on a timely basis. Such payments will be treated as Delinquency Advances. The Lender is not required to advance any termination payment due on the Interest Rate Swap.

Section 403.04. Interest Rate Swaps not Enhanced by Fannie Mae

All unenhanced Interest Rate Swap transactions will be Pre-Review. If Fannie Mae is asked to accept an unenhanced Interest Rate Swap as the required Interest Rate Hedge, all of the requirements applicable to Fannie Mae credit-enhanced Interest Rate Swaps will apply except:

- Tier 2 transactions are permitted;
- terms longer than 10 years are permissible; and
- no subordinate Lien, or pledge of partnership interests may be granted to secure the Borrower’s obligations under the Interest Rate Swap unless it is specifically approved by Fannie Mae.

If a forward starting Interest Rate Swap is utilized and the required Interest Rate Cap will be delivered to Fannie Mae, the Interest Rate Swap transaction must be entered into on an unsecured basis and must satisfy the following requirements:
The fixed rate on the Interest Rate Swap cannot exceed the rate used to underwrite the Mortgage Loan minus the Guaranty Fee Rate, Servicing Fee Rate, and Liquidity Fees, Interest Rate Cap cost factor and other fees and expenses included in the Variable Underwriting Rate, as described above under Swap Rate.

Fannie Mae must review and approve the Lender’s servicing obligations under the Interest Rate Swap, including the payment flows between the Borrower, the Lender and the Swap counterparty.

If the Interest Rate Swap is terminated, the Interest Rate Swap provider’s remedies are limited to the right to obtain a judgment lien for the amount of the termination payment, the enforcement of which would be subordinated to Fannie Mae’s senior Lien on the Property.

Fannie Mae must be made aware of the Interest Rate Swap counterparty and will review the Interest Rate Swap documents to ensure that no Lien is granted to the provider and that the “transfer” provisions of the Loan Documents are not violated.

All waivers granted or sought on the transaction must be identified and submitted for review at the same time that the Interest Rate Swap transaction is reviewed.

Fannie Mae will determine whether an Interest Rate Swap transaction is structured on an unsecured basis in accordance with these requirements based on its review of the structure of the individual financing and the Interest Rate Swap itself. For example, in an ordinary transaction, for the Swap to be unsecured, no “transfer,” as that term is used in the Security Instrument, may be structured into the Interest Rate Swap. Among other things this means the Borrower may not grant a subordinate security interest on the Property for the Interest Rate Swap and no general partnership interest in the Borrower may be pledged to the provider of the Interest Rate Swap.

Fannie Mae will collect a Swap Review Fee as compensation for its review of unenhanced Interest Rate Swap transactions. The Swap Review fee may be implemented either through an addition to Fannie Mae’s Guaranty Fee or as a per transaction dollar amount collected as a one time charge. Fannie Mae’s legal counsel may also impose additional legal fees for its review of the Interest Rate Swap documents.

Section 403.05. Subordinated Interest Rate Swap (“Subordinated Swap”)

The Subordinated Swap is a subset of Interest Rate Swaps that are not enhanced by Fannie Mae. Under this execution the Interest Rate Swap Provider is allowed to secure the payment obligations of the Borrower with a Lien that is fully subordinated to Fannie Mae’s first-lien Security Instrument so long as it complies with the following:
<table>
<thead>
<tr>
<th>ITEM</th>
<th>REQUIREMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible Products</td>
<td>Only for variable rate Credit Enhancement Mortgage Loans, underwritten to Tier 2 or a higher Tier</td>
</tr>
<tr>
<td>Swap Provider</td>
<td>The Lender must contact the Fannie Mae Deal Team</td>
</tr>
<tr>
<td>Swap Counterparty</td>
<td>The counterparty to the Subordinated Swap will be the individual property borrowing entity</td>
</tr>
<tr>
<td>Swap Indices</td>
<td>Subordinated Swaps on tax-exempt Bonds will be based on BMA/SIFMA. Subordinated Swaps on taxable Bonds structured as taxable tails will be based on LIBOR.</td>
</tr>
<tr>
<td>Executions</td>
<td>Subordinated Swaps may be spot or forward starting. HOWEVER, Forward starting Subordinated Swaps will require separate credit support for the Subordinated Swap during the construction period. Please contact Fannie Mae in advance in the case that a forward starting Subordinated Swap is being contemplated.</td>
</tr>
<tr>
<td>Minimum Term</td>
<td>Credit Enhancement Mortgage Loan secured by an MAH Property (4% LIHTC): 15 years Credit Enhancement Mortgage Loan secured by a non-MAH Property (no LIHTC): 10 years</td>
</tr>
<tr>
<td>Rate</td>
<td>For purposes of obtaining indicative Subordinated Swap quotes for a Credit Enhancement Mortgage Loan, the Lender must contact the Fannie Mae Deal Team. All swap quotes are subject to change until the Subordinated Swap trade is executed. Final swap rates will be reflected in a Subordinated Swap Trade Confirmation. Final loan amounts will be subject to resizing based on the final swap rate.</td>
</tr>
</tbody>
</table>
| Subordinated Swap Documentation and Review | Fannie Mae-designated counsel will review the following documentation related to the Subordinated Swap:  
  - ISDA Master Agreement;  
  - Schedule to the ISDA Master Agreement;  
  - Swap Trade Confirmation; and  
  - Subordinate Mortgage Documents.  |
<p>| Fee Maintenance Period       | 10 years based on the standard Fee Maintenance schedule for variable rate Credit Enhancement Mortgage Loan transactions.                        |
| Hedge Escrows                | Hedge escrow deposits will be required for the purchase of a subsequent hedge conforming to minimum Fannie Mae standards. Escrow deposits will commence 5 years prior to the maturity date of the Subordinated  |</p>
<table>
<thead>
<tr>
<th>ITEM</th>
<th>REQUIREMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swap</td>
<td>Swap. No adjustment to the Variable Underwriting Rate for a hedge escrow will be required.</td>
</tr>
<tr>
<td><strong>Other Subordinated Debt</strong></td>
<td>For transactions with other subordinate debt financing, the other subordinate debt provider’s lien(s) must be subordinate to the Subordinated Swap provider’s lien position.</td>
</tr>
<tr>
<td><strong>Lender Requirements</strong></td>
<td>Lenders will be required to service and monitor the borrower’s obligations under the swap. All payments on the Subordinated Swap will flow through the Lender.</td>
</tr>
</tbody>
</table>

The Lender will be required to deliver the Interest Rate Hedge Information via the Form 4643 per the requirements detailed in Section 401.03 of this Chapter. The category “Subordinated Swap” has been added to the drop down box entitled “Interest Rate Hedge Type” on Form 4643; Lenders must select this Interest Rate Hedge type for the Subordinated Swap.
Part IIIC – Underwriting for Special Product Features or Executions

Chapter 5 – Adjustable Rate Mortgage Loans

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Chapter 5 – Adjustable Rate Mortgage Loans

Section 501. Underwriting (10/12/15)

Section 501.01. General

An Adjustable Rate Mortgage Loan (ARM Loan) must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

In addition, an ARM Loan must:

- have a term of 5, 7, or 10 years (the ARM 7-4™ and the ARM 7-6™ each have a term of 7 years);
- mature on the 5th, 7th, or 10th anniversary of the first day of the month immediately following the month in which the Mortgage Loan was originated (or of the month in which the Mortgage Loan was originated, if the Mortgage Loan closed on the first of a month);
- adjust its interest rate periodically on the basis of movement in a specified Index with payments adjusted to repay the unpaid principal balance (UPB) of the Mortgage Loan in substantially equal payments over the remaining amortization period; and
- have scheduled monthly payments that are due on the first day of each month.

Section 501.02. Multifamily Trading Desk Trades

Only Adjustable Rate Mortgage Loans rate locked through trades with the Multifamily Trading Desk (MBS or cash) are eligible for purchase by Fannie Mae. Please see the Pricing Memo for currently available ARM Loan terms.

Section 501.03. Maximum Loan Amount

The maximum loan amount for an ARM Loan is the lowest of:

(a) the amount calculated using the applicable minimum Debt Service Coverage Ratio (DSCR) set forth in the Multifamily Underwriting Standards for both:
   - the maximum lifetime limit for the adjustable interest rate on the ARM Loan; and
the applicable fixed interest rate used for the “fixed rate test” described in the Multifamily Underwriting Standards;

(b) the amount calculated using the applicable maximum Loan-to-Value (LTV) Ratio set forth in the Multifamily Underwriting Standards; or

(c) the amount determined to be appropriate by the Lender.

Section 501.04. Interest Rate

The interest rate on an ARM Loan is a percentage determined by adding the Margin to the specified Index. The interest rate on an ARM Loan must never be less than the Margin.

Section 501.05. Permitted Asset Classes

A. ARM 7/6™ Mortgage Loans

An ARM 7/6 Mortgage Loan may be secured by any Property type.

B. ARM 7/4™ Mortgage Loans

An ARM 7/4 Mortgage Loan may only be secured by:

- a Multifamily Affordable Housing Property of any size;
- a Manufactured Housing Community; or
- any Property type with 5 to 50 units.

Section 502. Actual/360 Interest Accrual; Interest-Only ARM Loans (04/24/17)

Section 502.01. Interest Accrual Method

An ARM Loan may only use an “actual/360” interest accrual method (i.e., a Mortgage Loan that accrues interest on the UPB for the actual number of days in a month, based on a year consisting of 360 days).

Section 502.02. Interest-Only ARM Loans

An ARM Loan that meets the requirements of Part IIIC, Chapter 1 may be an interest-only Mortgage Loan.
Section 503. Loan Plans (10/12/15)

The available ARM Loan Plan and its loan terms are set forth below.

<table>
<thead>
<tr>
<th>Plan Number</th>
<th>02255</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index</td>
<td>1-month U.S. dollar-denominated LIBOR</td>
</tr>
<tr>
<td>Frequency of Interest Rate Change</td>
<td>Monthly</td>
</tr>
<tr>
<td>Limit Per Interest Rate Change</td>
<td>Plus or minus 1% to the then-current interest rate</td>
</tr>
</tbody>
</table>
| Lifetime Interest Rate Limits | For ARM 7-6: the sum of:  
  - the Guaranty Fee; plus  
  - the Servicing Fee; plus  
  - 6%.  
For ARM 7-4: the sum of:  
  - the Guaranty Fee; plus  
  - the Servicing Fee; plus  
  - 4%. |
| Look Back Period | 15 days |
| Conversion to Fixed Rate | May convert to a fixed rate Mortgage Loan in accordance with the terms of the Loan Documents, beginning on the first day of the second Loan Year and ending on the last day of:  
  - the fourth Loan Year for an ARM Loan having a term of 5 years; or  
  - the fifth Loan Year for an ARM Loan having a term of 7 or 10 years. |

Section 504. Prepayment Terms (04/24/17)

Section 504.01. General

The following prepayment provisions apply to all ARM Loans:

- the Loan Documents for an ARM Loan must contain a provision that prohibits a voluntary prepayment during the first Loan Year (i.e., a voluntary prepayment is “locked out”), after which a 1% Prepayment Premium for each Loan Year will be due, as described in Section 504.02 of this Chapter;

- no Prepayment Premium is owed if the prepayment is made during the last 3 months prior to the Maturity Date of the Mortgage Loan;
if the prepayment occurs before the last 3 months prior to the Maturity Date of the Mortgage Loan for any reason (including voluntary prepayment of the Mortgage Loan or an acceleration of the Mortgage Loan) other than a prepayment occurring in connection with a casualty or condemnation, the Prepayment Premium must be collected from the Borrower; and

no Prepayment Premium is due when an ARM Loan converts to a fixed rate Mortgage Loan.

See Part V, Section 213 of the Guide for the actual calculation of the Prepayment Premium on an ARM Loan and its sharing between Fannie Mae and the Lender.

Section 504.02. 1% Prepayment Premium Schedule

After Year 1 in which no voluntary prepayment is permitted, an ARM Loan will have a 1% Prepayment Premium for each Loan Year as noted below.

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Loan Term</th>
<th>7-Year Loan Term</th>
<th>10-Year Loan Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Locked Out)</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>2</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>3</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>4</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>5</td>
<td>1.00%</td>
<td>1.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>6</td>
<td>1.00%</td>
<td>1.00%</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>1.00%</td>
<td>1.00%</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>1.00%</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
<td>1.00%</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>1.00%</td>
<td></td>
</tr>
</tbody>
</table>

Notes:

1 During the first Loan Year, the Borrower is not permitted to voluntarily prepay the ARM Loan. The percentage indicated above during the lock-out period is applicable if the Lender accelerates the ARM Loan during the prepayment lockout period covering the first Loan Year.

Section 504.03. Defeasance

Defeasance is not available for an ARM Loan.

Section 505. Conversion to Fixed Rate (04/24/17)

Section 505.01. General

An ARM Loan can convert to a fixed rate Mortgage Loan in accordance with the terms of the Loan Documents. The Lender must process the conversion in accordance with the Loan
Documents, the Loan Documentation Requirements, and any additional procedural requirements set forth in the Guide. All conversions must be entered by the Lender in DUS Gateway, regardless of whether the conversion is delegated or non-delegated.

Section 505.02. Fixed Rate Mortgage Loan Term

An ARM Loan may only convert to a fixed rate Mortgage Loan with the following loan terms:

- 7-year term with a 5-year Yield Maintenance Period;
- 7-year term with a 6.5-year Yield Maintenance Period;
- 10-year term with a 7-year Yield Maintenance Period; or
- 10-year term with a 9.5-year Yield Maintenance Period.

Section 505.03. Fixed Rate Mortgage Loan Guaranty Fee and Servicing Fee

The Gross Note Rate will be determined using the Guaranty Fee and Servicing Fee for fixed rate Mortgage Loans in effect at the time the Borrower enters into a Rate Lock with the Lender for the fixed rate Mortgage Loan.

Section 505.04. Conversion of Interest-Only ARM Loan

If (a) an ARM Loan converts to a fixed rate Mortgage Loan during the interest-only period, and (b) the Borrower elects a fixed rate Mortgage Loan term greater than or equal to the original term of the ARM Loan, the remaining portion of the interest-only period may carry over to the fixed rate Mortgage Loan, with Amortization required to commence following the completion of the interest-only period. In all other instances, the Mortgage Loan must begin amortizing immediately following conversion, based on the fixed rate.

Section 505.05. Fixed Rate Mortgage Loan Amortization Periods

If the Property achieves the necessary Debt Service Coverage Ratio required to exercise the conversion option on the ARM Loan, the amortization period for the fixed rate Mortgage Loan will be:

- set to 360 months if the ARM Loan was full-term interest-only; or
- reset to 360 months if all of the following conditions are met:
  - the Borrower elects a fixed rate Mortgage Loan term greater than or equal to the original term of the ARM Loan; and
  - the most recent inspection of the Property by the Lender resulted in a Property rating of either “1” or “2”.
If all of the above conditions are not met and the ARM Loan was partial interest-only or amortizing, the amortization period for the fixed rate Mortgage Loan will equal (a) the original amortization period (in months) of the ARM Loan, minus (b) the number of monthly principal and interest payments or interest-only payments that have elapsed since the Mortgage Loan Origination Date.

Section 505.06. Property Condition Assessment (PCA)

If (i) the conversion option exercised for an ARM Loan extends the term of the Mortgage Loan, and (ii) the ARM Loan is secured by a Property other than an MAH Property, then a new PCA (or a Streamlined PCA if permitted by Part IIIA, Section 316) is required in the earlier of:

- the Loan Year that would have been the final Loan Year of the ARM Loan had the conversion option not been exercised; or
- Loan Year 10.
Part IIIC – Underwriting for Special Product Features or Executions

Chapter 6 – Structured ARM Loans

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Chapter 6 – Structured ARM Loans

Section 601. Generally (06/09/14)

A Structured ARM Loan (a “SARM Loan”) is an Adjustable Rate Mortgage Loan execution that enables Lenders to obtain a Commitment for a Cash Mortgage Loan or an MBS Mortgage Loan having a minimum original principal balance of $25 million. Interest rate adjustments to SARM Loans based on changes to the applicable index described in Section 603 of this Chapter are not subject to periodic or lifetime caps. Instead, the Borrower is required to have an Interest Rate Cap in place during the term of the Structured ARM Loan. A Structured ARM Loan is generally convertible to a fixed rate Mortgage Loan after the first Loan Year until the first day of the third month prior to the Maturity Date of the SARM Loan.

Section 602. Eligible Mortgage Loans 04/24/17)

Structured ARM Loans are available for all Mortgage Loan executions except as set forth below.

Section 602.01. Prior Fannie Mae Approval Required

Structured ARM Loans are available only with Fannie Mae’s prior approval for the following Asset Classes or product types:

- Moderate Rehabilitation Properties;
- Seniors Housing Properties;
- Dedicated Student Housing Properties;
- Multifamily Affordable Housing Properties;
- Credit Enhancement Mortgage Loans when the Credit Enhancement is delivered in the form of an MBS; or
- any Mortgage Loan with Mezzanine Financing.

For any of the foregoing asset classes or product types, the Lender must contact the Fannie Mae Deal Team.

Section 602.02. Ineligible Mortgage Loans

The Structured ARM Loan execution is not available for the following:

- Mortgage Loans with a Defeasance option;
- Credit Enhancement Mortgage Loans when the Credit Enhancement is delivered in the form of a Credit Enhancement Instrument; or
Forward Commitments for a Mortgage Loan.

Section 603. Applicable Index (06/09/14)

Structured ARM Loans accrue interest based on either the 1-Month or the 3-Month LIBOR Index plus a Margin that is determined at Rate Lock. The interest rate on a SARM Loan must never be less than the Margin.

Section 604. Underwriting Requirements (06/09/14)

A Structured ARM Loan must meet all the applicable underwriting requirements of Part III, except to the extent any standard or requirement is expressly modified by the provisions of this Chapter, and the applicable Multifamily Underwriting Standards. In addition, a SARM Loan must be underwritten using the Variable Underwriting Rate (“Variable Underwriting Rate”) described below.

Section 605. Variable Underwriting Rate and Underwriting Debt Service Constant (06/09/14)

The Lender must calculate the minimum underwritten DSCR sufficient to cover a debt service constant that equals the sum of:

- the Variable Underwriting Rate; plus
- the applicable amortization factor based on the Variable Underwriting Rate.

The Variable Underwriting Rate equals the sum of the following:

- the 1-Month LIBOR Index or 3-Month LIBOR Index, as applicable, at the time of Rate Lock; plus
- the Mortgage Loan margin, which equals:
  - the Investor’s required spread over the applicable 1-Month LIBOR Index or 3-Month LIBOR Index; plus
  - the Guaranty Fee; plus
  - the Servicing Fee; plus
- an interest rate spread equal to 3% per annum; plus
- a Cap Cost Factor (see Part IIIC, Chapter 4 of this Guide for the Cap Cost Factor computation) if an Interest Rate Cap for the full term of the SARM Loan is not purchased by the Borrower at the origination of the SARM Loan.
Please note that the amortization used in underwriting the Structured ARM Loan and in the actual SARM Loan amortization schedule are different. The calculation of the actual amortization schedule for a Structured ARM Loan is set forth in Section 608.01.

**Section 606. Loan Term; Accrual Basis (04/24/17)**

A Structured ARM Loan must have a term of 5, 7, or 10 years, and must use the “actual/360” interest accrual method (i.e., interest on the unpaid principal balance of the Mortgage Loan accrues for the actual number of days in a month, based on a 360 day year with each month having 30 days).

**Section 607. Structured ARM Loan Plans (06/09/14)**

The available Structured ARM Loan Plans and their characteristics are set forth below.

**Section 607.01. 1-Month LIBOR Index**

<table>
<thead>
<tr>
<th>Plan Number</th>
<th>03488</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index</td>
<td>1-month U.S. dollar-denominated LIBOR</td>
</tr>
<tr>
<td>Frequency of Change</td>
<td>1 month</td>
</tr>
<tr>
<td>Per Change Limits</td>
<td>None</td>
</tr>
<tr>
<td>Lifetime Limits</td>
<td>None</td>
</tr>
<tr>
<td>Conversion to Fixed Rate</td>
<td>If eligible, may convert to a fixed rate Mortgage Loan on any Payment Change Date beginning on the first day of the second Loan Year and ending on the first day of the third month prior to the Maturity Date.</td>
</tr>
<tr>
<td>Look Back Period</td>
<td>1 Business Day</td>
</tr>
</tbody>
</table>

**Notes:**

1 “Per Change” limits apply to adjustments of the then-current interest rate on the Mortgage Loan.

2 “Lifetime” limits apply to the interest rate on the Mortgage Loan at the Mortgage Loan Origination Date.

**Section 607.02. 3-Month LIBOR Index**

<table>
<thead>
<tr>
<th>Plan Number</th>
<th>03487</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index</td>
<td>3-month U.S. dollar-denominated LIBOR</td>
</tr>
<tr>
<td>Frequency of Change</td>
<td>3 months</td>
</tr>
<tr>
<td>Per Change Limits</td>
<td>None</td>
</tr>
<tr>
<td>Lifetime Limits</td>
<td>None</td>
</tr>
<tr>
<td>Conversion to Fixed Rate</td>
<td>If eligible, may convert to a fixed rate Mortgage Loan on any Payment Change Date beginning on</td>
</tr>
</tbody>
</table>
Section 608. Actual Amortization Calculation; Interest-Only Requirements (04/24/17)

Section 608.01. Actual Amortization Schedule

Structured ARM Loans are subject to the same amortization requirements applicable to fixed rate Mortgage Loans, except that monthly amortization payments shall be calculated as described in this Section.

Amortization for a Structured ARM Loan must be based on the amortization schedule for a hypothetical “actual/360” fixed rate Mortgage Loan with the same loan term, amortization schedule, and Pricing and Underwriting Tier. The amortization is calculated using an interest rate equal to:

- an indicative Investor yield, plus
- the lower of:
  - the lowest Guaranty Fee and Servicing Fee as then set forth in the Pricing Memo for a hypothetical “actual/360” fixed rate Mortgage Loan with the same loan term and Pricing and Underwriting Tier as the SARM Loan; or
  - the Guaranty Fee and Servicing Fee fixed rate Mortgage Loan quote for the same transaction, quoted by the Fannie Mae Deal Team at the time the request is made for pricing the SARM Loan.

Using a SARM Loan with a 10 year loan term as an example, the Lender must obtain the following quotes for the hypothetical “actual/360” fixed rate Mortgage Loan:

- Guaranty Fee quoted by Fannie Mae: 0.95%
- Servicing Fee quoted by Fannie Mae: 0.55%
- Indicative Pass-Through Rate (quoted by Fannie Mae or third party MBS investor) 4.00%

In this example, the Gross Note Rate for the hypothetical fixed rate Mortgage Loan would be 5.5% (i.e., 0.95% + 0.55% + 4.00%), and the loan amortization for the SARM Loan having a
term of 10 years would be calculated using the same 5.5% per annum interest rate.

For all Structured ARM Loans, fixed monthly principal installments calculated as follows will be made over the term:

Step 1: Determine the aggregate amortization amount (i.e., the sum of all principal amortization that would be paid over the Mortgage Loan term) that would be collected over the term of the SARM Loan assuming that principal installments are calculated using:
- the loan amount of the SARM Loan;
- the lowest applicable interest rate for a hypothetical “actual/360” fixed rate Mortgage Loan with the same loan term and Pricing and Underwriting Tier as the SARM Loan (determined as described above), rounded to three decimal places;
- the required amortization period (typically 360 months), and
- an “actual/360” interest accrual method.

Step 2 – Calculate the fixed monthly principal installment as follows: divide the aggregate amortization amount computed in Step 1 by the number of amortizing monthly installments in the term of the SARM Loan (i.e., 60 for a 5-year amortizing Mortgage Loan, 84 for a 7-year amortizing Mortgage Loan, or 120 for a 10-year amortizing Mortgage Loan) to determine the fixed monthly principal installment.

Example: Assume a 10-year Tier 2 fixed rate Mortgage Loan with a (i) 5.50% per annum Gross Note Rate, (ii) 360 month amortization period, and (iii) $25 million loan amount. The fixed monthly principal installment would be calculated as follows:

Step 1: Determine the aggregate principal amortization amount that would be collected over the term of the Mortgage Loan if the Mortgage Loan was a fixed rate Mortgage Loan. Estimate the month and year in which the first full loan payment will be made, as in an “actual/360” amortization schedule the total amount of amortization is dependent upon both the number of days in each month (the actual number of days in the month prior to each loan payment date, i.e., 28, 29, 30, or 31) and when the next Leap Year occurs, using:
- the SARM Loan amount of $25 million;
- a 30 year amortization term;
- the debt service constant calculated using the Gross Note Rate of 5.500% (6.8134680% debt service constant rounded to 7 decimal places); and
- an “actual/360” interest accrual method.
Using an issuance date of December 1, 2013 and a first loan payment date of January 1, 2014, the aggregate amount allocated to principal over 120 payments is $4,118,631.63.

Step 2: Calculate the fixed monthly principal installment by dividing the aggregate amortization amount by the total number of amortizing payments during the term of the Mortgage Loan. The fixed monthly principal payment would equal $34,321.93, calculated as follows:

$$\frac{4,118,631.63}{120} = 34,321.93$$

Section 608.02. Interest Only Structured ARM Loans

A Structured ARM Loan that meets the requirements of Part IIIC, Chapter 1 may be an interest-only Mortgage Loan.

Section 609. Interest Rate Cap Requirements (06/09/14)

An Interest Rate Cap is required for all Structured ARM Loans. The Interest Rate Cap Agreement must be in place at all times during the term of the SARM Loan until the earlier of:

- the date of any permitted conversion to a fixed rate Mortgage Loan; or
- the Maturity Date of the Mortgage Loan.

See Part IIIC, Chapter 4 for Interest Rate Cap requirements.

Section 610. Prepayment Terms (04/24/17)

A Structured ARM Loan is subject to a prepayment lockout during the first Loan Year, during which time the Borrower is not permitted to voluntarily prepay the Mortgage Loan. After the first Loan Year, the Borrower may voluntarily prepay the Structured ARM Loan in full prior to the Maturity Date, subject to the payment of the Prepayment Premium required under the Loan Documents. No Prepayment Premium is due in connection with a prepayment that occurs within the last three months prior to the Maturity Date, or in connection with the conversion of the interest rate from adjustable to fixed. See Part V, Section 213 of the Guide for the actual calculation of the Structured ARM Loan Prepayment Premium and its sharing between Fannie Mae and the Lender.

Fannie Mae offers a choice of two prepayment premium options - either a declining Prepayment Premium schedule or a 1% Prepayment Premium schedule, as described below. A Prepayment Premium is due if:

- the Borrower voluntarily prepsys the SARM Loan at any time permitted under the Loan Documents, except as a result of the application of (i) any insurance
proceeds following a casualty, or (ii) any award received in connection with a condemnation action; or

- the Lender accelerates the unpaid principal balance of the Mortgage Loan, or otherwise applies collateral held by the Lender to the repayment of the Mortgage Loan at any time before the last three months prior to the Maturity Date, including during the prepayment lockout period covering the first Loan Year.

The Prepayment Premium is equal to the applicable percentage multiplied by:

- in the case of a voluntary Prepayment, the unpaid principal balance of the Mortgage Loan after crediting the scheduled payment due on the first day of the month in which a prepayment takes place; or

- in the case of acceleration of the Mortgage Loan, the amount of principal being prepaid at the time of such acceleration or collateral application.

Section 610.01. Option 1 – Declining Prepayment Premium Schedule ("Prepayment Option 1")

After the prepayment lockout period during the first Loan Year, the Prepayment Premium percentage listed below applies to any prepayment made during each subsequent year. The Lender must use Schedule 4 to Multifamily Loan and Security Agreement - Prepayment Premium Schedule (Graduated Prepayment Premium – ARM, SARM) (6104.10) to document Prepayment Option 1 for a SARM Loan.

<table>
<thead>
<tr>
<th>Loan Year</th>
<th>5-Year Term</th>
<th>7-Year Term</th>
<th>10-Year Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Locked Out)</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>3</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>4</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>5</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>6</td>
<td>Not Applicable</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>7</td>
<td>Not Applicable</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>8</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td>1%</td>
</tr>
<tr>
<td>9</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td>1%</td>
</tr>
<tr>
<td>10</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td>1%</td>
</tr>
</tbody>
</table>

Notes:

1 During the first Loan Year, the Borrower is not permitted to voluntarily prepay the SARM Loan. The percentage indicated above during the lock-out period is applicable if the Lender accelerates the SARM Loan during the prepayment lockout period covering the first Loan Year.
Section 610.02. Option 2 - 1% Prepayment Premium Schedule
("Prepayment Option 2")

After the prepayment lockout period during the first Loan Year, a 1% Prepayment Premium applies for each subsequent year. The Lender must use Schedule 4 to Multifamily Loan and Security Agreement - Prepayment Premium Schedule (Graduated Prepayment Premium – ARM, SARM) (6104.11) to document Prepayment Option 2 for a SARM Loan.

Section 611. Conversion to Fixed Rate (04/24/17)

Section 611.01. General

The interest rate on a Structured ARM Loan may be converted from an adjustable rate to a fixed rate on any Payment Change Date beginning on the first day of the second Loan Year and ending on the first day of the third month prior to the Maturity Date if the conditions to conversion set forth in the Loan Documents are satisfied, including the following DSCR test:

- the actual DSCR of the Structured ARM Loan (based on the trailing 12-month period as of the date of the most recently received quarterly financial statements for the Property) when the Borrower elects to exercise the conversion option, must be greater than or equal to the minimum required DSCR for a fixed rate Mortgage Loan at the same underwriting Tier at which the Structured ARM Loan was originally underwritten, as set forth in the current Multifamily Underwriting Standards (Form 4660).

The Lender must process the conversion in accordance with the Loan Documents, the Loan Documentation Requirements, and any additional procedural requirements set forth in the Guide. All conversions must be entered by the Lender in DUS Gateway, regardless of whether the conversion is delegated or non-delegated.

Section 611.02. Fixed Rate Mortgage Loan Terms

A Structured ARM Loan may only convert to a fixed rate Mortgage Loan with the following loan terms:

- 7-year term with a 5-year Yield Maintenance Period;
- 7-year term with a 6.5-year Yield Maintenance Period;
- 10-year term with a 7-year Yield Maintenance Period;
- 10-year term with a 9.5-year Yield Maintenance Period; or
- 8-year through 11-year term Fixed+1 Mortgage Loans, but only if Fannie Mae is offering to purchase Fixed+1 Mortgage Loans on a regular basis at the time the Borrower exercises the conversion option.
Section 611.03. Fixed Rate Mortgage Loan Guaranty Fee and Servicing Fee

The Gross Note Rate will be determined using the Guaranty Fee and Servicing Fee for fixed rate Mortgage Loans in effect at the time the Borrower enters into a Rate Lock with the Lender for the fixed rate Mortgage Loan.

Section 611.04. Conversions of Interest-Only SARM Loans

If (a) a Structured ARM Loan converts to a fixed rate Mortgage Loan during the interest-only period, and (b) the Borrower elects a fixed rate Mortgage Loan term greater than or equal to the original term of the Structured ARM Loan, the remaining portion of the interest-only period may carry over to the fixed rate Mortgage Loan, with Amortization required to commence following the completion of the interest-only period. In all other instances, the Mortgage Loan must begin amortizing immediately following conversion, based on the fixed rate.

Section 611.05 Fixed Rate Mortgage Loan Amortization Periods

If the Property achieves the necessary Debt Service Coverage Ratio required to exercise the conversion option, the amortization period for the fixed rate Mortgage Loan will be:

- set to 360 months if the Structured ARM Loan was full-term interest-only; or
- reset to 360 months if all of the following conditions are met:
  - the Borrower elects a fixed rate Mortgage Loan term greater than or equal to the original term of the Structured ARM Loan; and
  - the most recent inspection of the Property by the Lender resulted in a Property rating of either “1” or “2”.

If all of the above conditions are not met and the Structured ARM Loan was partial interest-only or amortizing, the amortization period for the fixed rate Mortgage Loan will equal (a) the original amortization period (in months) of the Structured ARM Loan, minus (b) the number of monthly principal and interest payments or interest-only payments that have elapsed since the Mortgage Loan Origination Date.
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Chapter 7 – Fixed+1 Mortgage Loans (07/02/18)

Fixed+1 Mortgage Loans are currently ineligible for purchase by Fannie Mae. The Lender may contact the Fannie Mae Deal Team for other available financing options.
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Section 1001. Mezzanine Financing Requirements (02/04/19)

Section 1001.01 General

A. General Requirements

Mezzanine Financing is not permitted in connection with any Mortgage Loan, except for:

- DUS Lender Affiliate Mezzanine Financing (“DLA Mezzanine Financing”) provided by an approved Affiliate of the Lender originating the Mortgage Loan (“DLA Mezzanine Lender”); or
- Mezzanine Financing from another mezzanine lender approved in advance by Fannie Mae.

A Mortgage Loan with permitted Mezzanine Financing must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is modified by this Chapter;
- the Multifamily Underwriting Standards (Form 4660); and
- the additional requirements in this Chapter.

Fannie Mae reserves the right at any time to:

- prohibit a previously approved DLA Mezzanine Lender from providing any DLA Mezzanine Financing;
- prohibit a Lender from delivering a Mortgage Loan if the Mezzanine Financing was not properly disclosed prior to Rate Lock; and
- limit the volume of Mortgage Loans with Mezzanine Financing delivered by any Lender or by all Lenders in the aggregate.

B. Mortgage Loan Execution Options

A Mortgage Loan with Mezzanine Financing may be either a Cash Mortgage Loan or an MBS Mortgage Loan.

C. Eligible Mortgage Loans

Any Mortgage Loan with Mezzanine Financing must:

- be newly originated;
- have an original Unpaid Principal Balance of at least:
- $10,000,000 with DLA Mezzanine Financing; or
- $50,000,000 with Mezzanine Financing from any other lender;
  - have a fixed rate; and
  - include the Additional Disclosure for Mezzanine Financing required by the Multifamily Additional Disclosure Guidance (Form 4098).

D. Requirements for Mezzanine Financing

For the Mortgage Loan to be eligible for purchase by Fannie Mae, the Mezzanine Financing must:
  - be in place as of the Mortgage Loan Origination Date;
  - be at least $1,000,000 for DLA Mezzanine Financing (Note: non-DLA Mezzanine Financing has no required minimum amount);
  - be a fixed rate loan or have a fixed rate of return without any provision providing for escalation; and
  - not have a maturity date, redemption date, trigger date, or any similar mechanism requiring repayment of the Mezzanine Financing during the term of the Mortgage Loan.

E. Loss Sharing

Loss Sharing is required on all Mortgage Loans with Mezzanine Financing.

Section 1001.02 Approval of DLA Mezzanine Lender; On-going Reporting

A. Approval of DLA Mezzanine Lenders

All DLA Mezzanine Lenders must be approved in advance by Fannie Mae. The Lender must contact Fannie Mae Multifamily Partner Risk Management to discuss the approval process. Approval will be based, in part, on the Affiliate’s financial capacity and experience in mezzanine lending, as described below:

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>DESCRIPTION</th>
<th>SUBMISSION TO FANNIE MAE</th>
</tr>
</thead>
<tbody>
<tr>
<td>MUST BE AN ESTABLISHED BUSINESS.</td>
<td>Demonstrate commitment to multifamily Mezzanine Financing or equity investments as a core business.</td>
<td>Mezzanine Financing business plan identifying markets, products (including multifamily), historical volumes, and projected volumes.</td>
</tr>
</tbody>
</table>
## MUST HAVE EXPERIENCED PERSONNEL.

Demonstrate appropriate employee background and experience in:
- underwriting;
- asset management;
- portfolio management; and
- property management (or consistent use of a third-party property management company that meets these criteria).

- Organizational chart identifying key personnel and respective roles and responsibilities.
- Resumes of key personnel on the organizational chart.
- Skill-sets and years of experience in the key functions described, including the use of a third-party property management company.

## MUST HAVE A PROVEN TRACK RECORD.

Demonstrate proactive management and performance of its Mezzanine Financing program.

- Historical Mezzanine Financing and performance (at the loan level, including description of product, amount, term, rate, status).
- Examples of non-performing transactions and resolutions, including key management actions.

## MUST HAVE ADEQUATE FINANCIAL CAPACITY.

Demonstrate that capital levels are adequate for current and expected volumes of Mezzanine Financing and associated risk requirements.

- If rated, rating agency ratings for prior 3 years (if rated during such period).
- If not rated, balance sheets and operating or income statements for prior 3 years.

## B. On-Going Reporting of DLA Mezzanine Lenders

Each DLA Mezzanine Lender must submit quarterly reporting to Fannie Mae Partner Risk Management including, but are not limited to:

- financial statements for the DLA Mezzanine Lender, including balance sheets and operating or income statements;
- the Mezzanine Financing activity completed with Mortgage Loans purchased by Fannie Mae, including the performance of the Mezzanine Financing; and
- certifications as to no material adverse change, defaults, or organizational changes for the DLA Mezzanine Lender.

Failure to comply with the reporting requirements may result in revocation of the approval for the DLA Mezzanine Lender to provide DLA Mezzanine Financing.
Section 1001.03 Data Submission

Fannie Mae will not confirm a Commitment for a Mortgage Loan with Mezzanine Financing unless all required Mezzanine Financing fields are completed in DUS Gateway.

Section 1001.04 Required Submissions to Fannie Mae; Waivers

A. Submission Materials

For any Mortgage Loan with Mezzanine Financing, the Lender must submit the following in DUS Gateway:

- a sources and uses statement for the Mezzanine Financing proceeds; and
- in connection with any Mezzanine Financing that finances rehabilitation:
  - a description of the proposed rehabilitation;
  - the approved rehabilitation budget;
  - the rehabilitation timeline; and
  - the construction or rehabilitation documents.

B. Waivers and Approvals

Fannie Mae will concurrently approve in US Gateway:

- the Mortgage Loan and any associated waivers;
- the Mezzanine Financing and any associated waivers; and
- any mezzanine lender that is not a DLA Mezzanine Lender.

Section 1001.05 Underwriting Requirements for a Mortgage Loan with Mezzanine Financing

Any Mortgage Loan with Mezzanine Financing must comply with the following requirements:

- Income Projections: The Lender must provide support for the income projections used to determine the aggregate amount of the Mortgage Loan and the Mezzanine Financing, and clearly demonstrate that the Net Cash Flow of the Property will be sufficient and sustainable to support both.

- Maximum Loan Amount: The Lender must use the same Underwritten Net Cash Flow (Underwritten NCF) to determine the maximum loan amount for both the Mortgage Loan and the Mezzanine Financing.
Refinance Risk Analysis: The Lender must prepare a refinance risk analysis that incorporates the aggregate terms of both the Mortgage Loan and the Mezzanine Financing. In addition, the analysis must demonstrate that the Borrower will maintain a positive equity position in the Property throughout the term of the Mortgage Loan or have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation. The refinance risk analysis must conclude that there will be sufficient cash flow, NCF growth, and residual value to pay off both the Mortgage Loan and the Mezzanine Financing on the Maturity Date (including any applicable extension term).

Experience: The Borrower, each Key Principal, and the mezzanine borrower must have sufficient net worth, liquidity, and experience with the Property Asset Class and market to justify the origination of the Mortgage Loan and the Mezzanine Financing. To the extent upgrades or rehabilitation will be financed with the Mezzanine Financing, the parties must also have sufficient experience managing the scope of the proposed rehabilitation, and strong property management experience in the local market to effectively address issues or risks that may result from the upgrades or rehabilitation.

Completion Guaranty: The Lender has the option of requiring a Completion Guaranty, granting the Lender certain rights to enforce the completion of the rehabilitation. Depending on the nature of the rehabilitation, the mezzanine lender may also require a Completion Guaranty from the Borrower.

Mezzanine Borrower Structure: The mezzanine borrower must be

- a newly formed, special purpose, bankruptcy-remote limited liability company or limited partnership;
- the sole owner of the Borrower; and
- wholly owned by the Principals of the Borrower.

Appraisal: If the Mezzanine Financing will fund rehabilitation, the Appraisal must provide an opinion of the market value of the Property on both an “as-is” and “as-completed” basis to incorporate the planned improvements.

Third-Party Reports: For a Mortgage Loan with DLA Mezzanine Financing, the Lender, must include in the underwriting package any internal or third-party inspection reports, property condition or physical needs assessments, and architect’s or engineer’s reports (or other similar reports) prepared in connection with the Mezzanine Financing.

Section 1001.06 Intercreditor Agreement

Fannie Mae must approve the Intercreditor Agreement to establish the relative priorities, rights and obligations of the Lender and the mezzanine lender.
Outside counsel may be retained by Fannie Mae, at the Borrower’s expense, to review any Intercreditor Agreements associated with Mezzanine Financing. The amount of the outside counsel retainer will be provided in writing to the Lender, is non-refundable, and must be paid to Fannie Mae concurrently with the underwriting submission. The Lender may charge its own legal and due diligence fees.

Section 1001.07 Repurchase Obligations and Servicing for DLA Mezzanine Financing

A. DLA Mezzanine Representations and Repurchase Obligations

For each Mortgage Loan with DLA Mezzanine Financing, the Lender represents and warrants to Fannie Mae that the Mezzanine Financing has been underwritten by the DLA Mezzanine Lender in compliance with this Guide, subject to any waivers granted by Fannie Mae, as applicable. A breach by the Lender of such representations and warranties shall be a default under the Lender Contract and subjects the Lender, in Fannie Mae’s sole discretion, to any and all remedies provided in this Guide and the Lender Contract for a breach of warranty.

The Lender will be notified if Fannie Mae determines that the Lender breached its representations regarding the Mortgage Loan or the DLA Mezzanine Financing.

B. DLA Mezzanine Loan Servicing

The Lender must service, report, and remit on the DLA Mezzanine Financing as provided in Part V.

In all cases, the Lender must promptly notify Fannie Mae of any default on the Mezzanine Financing.

Section 1002. Preferred Equity (02/04/19)

Section 1002.01 General

A. General Requirements

Any Mortgage Loan with permitted Preferred Equity must meet all of the applicable requirements of:

■ Part III, unless any requirement is modified by this Chapter;
■ the Multifamily Underwriting Standards (Form 4660); and
■ the additional requirements in this Chapter.

Fannie Mae reserves the right at any time to:
prohibit a Lender from delivering a Mortgage Loan to Fannie Mae if the Hard Preferred Equity was not properly disclosed prior to Rate Lock; and

limit the volume of Mortgage Loans with Hard Preferred Equity delivered by any Lender or by all Lenders in the aggregate.

B. Definitions

When used in this Guide, the following capitalized terms have the meanings set forth below.

- **Preferred Equity**: A form of direct or indirect equity ownership interest in, economic interests in, or rights with respect to, an entity that provide the equity owner preferred dividend, distribution, payment, or return treatment relative to other equity owners, which may be in the form of Hard Preferred Equity or Soft Preferred Equity.

- **Hard Preferred Equity**: A form of Preferred Equity that requires preferred payments or returns to the holder, regardless of whether cash flow from the Property is sufficient to make such preferred payments or returns.

- **Soft Preferred Equity**: A form of Preferred Equity in which the preferred payments or returns to the holder are only required to the extent cash flow from the Property is sufficient to make the payments or returns after satisfying all payment, reserve, escrow, and funding obligations under the Loan Documents and all operating expenses of the Property. The organizational documents of the Borrower authorizing the issuance of the Soft Preferred Equity must explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the preferred return.

C. Mortgage Loan Execution Options

A Mortgage Loan with a Borrower ownership structure that includes Preferred Equity may be a Cash Mortgage Loan or an MBS Mortgage Loan.

D. Eligible Mortgage Loans

A Mortgage Loan that includes Preferred Equity must:

- be newly originated;
- have a fixed rate; and
- in the case of Hard Preferred Equity:
  - the Mortgage Loan must have an original principal balance of at least $10,000,000;
  - the Hard Preferred Equity must be at least $1,000,000; and
include the Additional Disclosure for Hard Preferred Equity required by the Multifamily Additional Disclosure Guidance (Form 4098).

E. Preferred Equity Structures

Preferred Equity may be structured in a variety of ways, and may be structured similarly to a traditional equity investment while having rights or remedies more similar to debt, such as Mezzanine Financing. To determine if an equity investment in the Borrower constitutes Soft Preferred Equity or Hard Preferred Equity, the Lender must analyze:

- the Borrower’s organizational and capital structure;
- the Borrower’s applicable joint venture or operating agreement with the holder of the Preferred Equity; and
- the rights and remedies of the direct and indirect equity owners against the Borrower.

F. Limitations, Structure, and Terms of Preferred Equity

Any Preferred Equity must:

- not have a maturity date, redemption date, trigger date, or any similar mechanism requiring repayment during the term of the Mortgage Loan;
- have a fixed rate of return without escalations during the term of the Mortgage Loan;
- not include cash flow sweeps above the stated return;
- not be cross-collateralized with multiple assets;
- for Preferred Equity that includes both Hard Preferred Equity and Soft Preferred Equity, be underwritten using the total combined preferred return to meet the minimum Underwritten DSCR requirement in the Form 4660;
- contain all information, terms, and conditions relating to or governing the Preferred Equity in the Borrower’s organizational documents, including any joint venture or operating agreement; and
- not include an intercreditor agreement, recognition agreement, or other side agreement between the holder of the Preferred Equity and the Lender.

Any Preferred Equity must be underwritten as Hard Preferred Equity if:

- the organizational documents do not explicitly state that the preferred return may accrue if cash flow from operations is insufficient to pay the preferred return;
- it includes remedies for failing to achieve operating benchmarks such as net cash flow, net operating income, or other operating thresholds;
- it requires a reserve designed to ensure payment of the preferred return;
the holder benefits from a pledge of the general partner’s or managing member’s interest in the Borrower or the ownership interest of any other direct or indirect owner of the Borrower; and

the holder benefits from a guaranty or indemnity from the general partner, managing member, or manager of the Borrower (or any parent or other Person controlling any of them) with respect to the preferred payment or returns (NOTE: Any payments under such guaranty or indemnity executed by a Key Principal must be expressly subordinate to any Guaranty of the Mortgage Loan executed by that Key Principal).

G. Chapter Exclusions

This Chapter does not apply to:

- Soft Preferred Equity for which the owner has no remedial rights related to the failure to make or pay any preferred payment or return; or
- any organizational or capital structures of a Borrower relating solely to the allocation of Low Income Housing Tax Credits (“LIHTC”).

For example, Soft Preferred Equity that constitutes Preferred Equity solely due to “promoted interest” or priority “waterfall” distributions in the organizational structure of the Borrower, but which does not otherwise benefit from remedial rights related to the failure to make or pay distributions, is not subject to this Chapter. Similarly, a provision in the Borrower’s organizational documents that allows or requires the forced sale of the Property in an arm’s length transaction to third party unrelated to the Borrower, Sponsor, or the holder of the Preferred Equity if preferred payments or returns are not made, or as a result of “bad boy” actions by the general partner or managing member, is not considered a remedial right.

Section 1002.02 Data Submission

Fannie Mae will not confirm a Commitment for a Mortgage Loan with Hard Preferred Equity unless all required Preferred Equity fields are completed in DUS Gateway.

Section 1002.03 Required Submissions to Fannie Mae for Mortgage Loans Involving Hard Preferred Equity

For any Mortgage Loan involving Hard Preferred Equity, the Lender must submit the following in DUS Gateway:

- a sources and uses statement reflecting the investment of the holder of the Hard Preferred Equity;
- Exhibit B to the Multifamily Underwriting Certificate (Borrower);
a complete organizational chart of the Borrower, including any upper tier entities or other owners, and showing the respective ownership percentages, holding:

- any direct or indirect control of the management and operations of the Borrower;
- the ownership of a direct or indirect interest of 25% or more in the Borrower; and
- the ownership of any other direct or indirect interest in the Borrower that constitutes Hard Preferred Equity; and

- copies of the organizational and other documents that set forth the terms of, or otherwise govern:

  - the Hard Preferred Equity; and
  - the holder of the Hard Preferred Equity, including any term sheets, private placement memorandums, operating agreements, pledge agreements, guaranties, or similar arrangements.

Section 1002.04 Outside Counsel Fees for Hard Preferred Equity

Outside counsel may be retained by Fannie Mae, at the Borrower’s expense, to review a Mortgage Loan with Hard Preferred Equity. The amount of the outside counsel retainer will be provided in writing to the Lender, is non-refundable, and must be paid to Fannie Mae concurrently with the underwriting submission. The Lender may charge its own legal fees.

Section 1002.05 Underwriting Requirements for Borrower Structures with Preferred Equity

For any Borrower ownership structure that includes Preferred Equity, the Mortgage Loan must comply with the following requirements:

- **Non-Recourse Guaranties**: To the extent that the Preferred Equity holder benefits from a non-recourse guaranty or similar indemnity that contains recourse events or similar obligations not otherwise contained in the Loan Documents, the Lender must include the same events or obligations in the appropriate Loan Document and submit the modifications to Fannie Mae for approval.

- **Refinance Risk Analysis**: The Lender must prepare a refinance risk analysis that incorporates the aggregate terms of both the Mortgage Loan and the Preferred Equity. In addition, the analysis must demonstrate that the Borrower will maintain a positive equity position in the Property throughout the term of the Mortgage Loan or have some other incentive (e.g., continuing cash flow) to remain committed to the Property and its successful operation. The refinance risk analysis must conclude that there will be sufficient cash flow, NCF growth, and residual value to pay off both the Mortgage Loan and the Preferred Equity (if applicable) on the Maturity Date.
- **Replacement Guarantor:** The Lender must identify an acceptable replacement guarantor that satisfies the requirements for Key Principals for any Borrower structure with:
  - Hard Preferred Equity; or
  - Soft Preferred Equity if modifications to the Transfer/Assumption provisions of the Loan Agreement are requested for the benefit of the Soft Preferred Equity holder.

- **Loan Documents:** The Loan Documents for Preferred Equity set forth in the Loan Documentation Requirements (Form 6000) are required for any Mortgage Loan having a Borrower structure with:
  - Hard Preferred Equity; or
  - Soft Preferred Equity if modifications to the Transfer/Assumption provisions of the Loan Agreement are requested for the benefit of the Soft Preferred Equity holder.
Part IIIC – Underwriting for Special Product Features or Executions

Chapter 11 – Multiple Asset Transactions

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Chapter 11 – Multiple Asset Transactions

Section 1101. General (09/05/17)

A transaction that consists of multiple Mortgage Loans and is governed by a master agreement is a Structured Transaction, regardless of individual loan size or cross-collateralization. Fannie Mae will purchase Mortgage Loans included in a Structured Transaction, as part of either a Credit Facility or a Bulk Delivery, which are defined below. Structured Transactions are also known as Multiple Asset Transactions (“MATS”) in some systems and documents. A transaction that consists of multiple Mortgage Loans, but is not governed by a master agreement, is a portfolio transaction; this Chapter does not apply to portfolio transactions.

For a Structured Transaction to be eligible for purchase by Fannie Mae, all Mortgage Loans included in the Structured Transaction must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the applicable Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

Section 1102. Definitions (09/05/17)

Section 1102.01. Credit Facilities

A Credit Facility is a Structured Transaction that is governed by a master credit facility agreement or other master loan document. A Credit Facility may include any of the following key components:

- cross-collateralized/cross-defaulted Mortgage Loans and Properties;
- variable rate debt, fixed rate debt, or a combination of both;
- varied loan maturities and repayment terms;
- Guaranty Fees and Servicing Fees applicable to the initial debt may apply to future borrowings for a specific period of time;
- the ability to increase borrowing based on increases in the aggregate DSCR and decreases in the aggregate LTV of the Properties;
- the ability to increase the amount of the Credit Facility by delivering additional Properties as collateral; or
- collateral additions, releases, and substitutions.
Section 1102.02. Bulk Deliveries

A Bulk Delivery is a Structured Transaction that is governed by a bulk delivery agreement or other master loan document. A Bulk Delivery may include any of the following key components:

- Guaranty Fees and Servicing Fees applicable to the initial debt may apply to future borrowings for a specific period of time;
- additional Mortgage Loans in the future; or
- the ability to substitute a new Property for an existing Property as collateral.

Section 1103. Legal Review (09/05/17)

A Structured Transaction will require more intensive Fannie Mae involvement, including assignment of a Fannie Mae in-house legal lead who will direct outside counsel services.

Section 1104. Structuring Fees (09/05/17)

A Structured Transaction is subject to structuring fees as specified in the applicable Pricing Memo.
Chapter 12 – Hybrid Adjustable Rate Mortgage Loans

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Chapter 12 – Hybrid Adjustable Rate Mortgage Loans

Section 1201.  General (08/28/17)

Section 1201.01.  Definition; Underwriting Requirements

A Hybrid Adjustable Rate Mortgage Loan (“Hybrid ARM Loan”) is a Mortgage Loan with a total term of 30 years, comprised of an initial term where interest accrues at a fixed rate, after which it automatically converts to accrue interest at an adjustable rate for the remaining term. Three Hybrid ARM Loan options are available:

- 5 year initial fixed rate term, followed by a 25 year adjustable rate term;
- 7 year initial fixed rate term, followed by a 23 year adjustable rate term; and
- 10 year initial fixed rate term, followed by a 20 year adjustable rate term.

A Hybrid ARM Loan must meet all of the applicable requirements of:

- Part III, unless any standard or requirement is expressly modified by this Chapter;
- the Multifamily Underwriting Standards; and
- the additional requirements provided in this Chapter.

Compliance with the Hybrid ARM Loan requirements will be based on the applicable fixed rate term, without regard to the adjustable rate term.

Section 1201.02.  Eligible Mortgage Loans

A Hybrid ARM Loan must:

- be in an amount less than or equal to:
  - $3,000,000, if secured by any Property of any size;
  - $5,000,000, if the Mortgage Loan is secured by a Property of any size that is located in an “Eligible MSA”, as designated in the Multifamily Underwriting Standards; or
  - $5,000,000, if the Mortgage Loan is secured by a Property of 50 or fewer units that is not located in an “Eligible MSA”;
- have one of the permitted combinations of fixed rate and adjustable rate terms; and
- have a Prepayment Period End Date or Yield Maintenance Period End Date that is the final day of the last Loan Year of the applicable fixed rate term.
Section 1201.03. Ineligible Mortgage Loans

A Mortgage Loan secured by any of the following Asset Classes is ineligible to be a Hybrid ARM Loan:

- Cooperative Property;
- Military Housing Property;
- Multifamily Affordable Housing Property;
- Near Stabilized Property;
- Pre-Stabilized Property;
- Seniors Housing Property;
- Student Housing Property; or
- Dedicated Student Housing Property.

Section 1201.04. Interest-Only Hybrid ARM Loans

The interest-only period for a Hybrid ARM Loan must not be longer than the applicable fixed rate term.

Section 1201.05. Supplemental Mortgage Loans

A Supplemental Mortgage Loan may not be underwritten as a Hybrid ARM Loan, and any Property securing a Portfolio Hybrid ARM Loan is not eligible for a Supplemental Mortgage Loan.

Section 1201.06. Multifamily Trading Desk Trades

Only Hybrid ARM Loans rate locked through trades with the Multifamily Trading Desk (MBS or cash) are eligible for purchase by Fannie Mae.

Section 1202. Interest Rate during Adjustable Rate Term; Interest Accrual Method (08/28/17)

Section 1202.01. Interest Rate during Adjustable Rate Term

A. Index

The Index for a Hybrid ARM Loan during the adjustable rate term is the 6-month LIBOR, using a 45-day look back period in accordance with the applicable Hybrid ARM Loan Plan.
B. Gross Note Rate; Margin

During the adjustable rate term, the Gross Note Rate on a Hybrid ARM Loan will equal the Index, plus a margin established at the time of Rate Lock (the “Margin”), which will include the Guaranty Fee Rate and Servicing Fee Rate for the applicable fixed rate term and Asset Class, plus the Investor spread. The Investor spread will be published in the Multifamily Underwriting Standards (Form 4660).

The interest rate on a Hybrid ARM Loan during the adjustable rate term cannot be less than the Margin. The interest rate adjustment from the fixed rate term to the adjustable term rate and adjustments during the adjustable rate term are subject to a periodic cap, and the Hybrid ARM Loan is also subject to an interest rate ceiling, as provided in Section 1203.

Section 1202.02. Interest Accrual Method

A Hybrid ARM Loan must use an “Actual/360” interest accrual method.

Section 1203. Hybrid ARM Loan Plan and Terms (08/28/17)

The terms for the Hybrid ARM Loan Plan Number are:

<table>
<thead>
<tr>
<th>Plan Number 04891</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permitted combinations of fixed rate and adjustable rate terms</td>
</tr>
<tr>
<td>• 5 year fixed rate term, followed by automatic conversion to a 25 year adjustable rate term;</td>
</tr>
<tr>
<td>• 7 year fixed rate term, followed by automatic conversion to a 23 year adjustable rate term; or</td>
</tr>
<tr>
<td>• 10 year fixed rate term, followed by automatic conversion to a 20 year adjustable rate term.</td>
</tr>
</tbody>
</table>
## Plan Number 04891

| **Conversion to adjustable interest rate** | Automatic conversion from the fixed interest rate to the adjustable interest rate on the first day of:  
- the sixth Loan Year for a Hybrid ARM Loan having a 5 year fixed rate term;  
- the eighth Loan Year for a Hybrid ARM Loan having a 7 year fixed rate term; or  
- the eleventh Loan Year for a Hybrid ARM Loan having a 10 year fixed rate term. |
| **Index during adjustable rate term** | 6-month U.S. dollar-denominated LIBOR |
| **Gross Note Rate during adjustable rate term** | Index plus the Margin |
| **Frequency of interest rate change during the adjustable rate term** | Every 6 months, with any change in the Index |
| **Frequency of payment change during the adjustable rate term** | Principal and Interest are recalculated every 6 months with every interest rate change |
| **Maximum Change in the interest rate (i) at conversion from the fixed interest rate to the adjustable interest rate, and (ii) during the adjustable rate term, in the adjustable interest rate from the then-current Adjustable Interest Rate** | +/- 1% |
| **Maximum interest rate during the adjustable rate term** | 5% over the fixed rate |
| **Look back period (i.e., the number of days prior to any interest rate change date on which the adjustable interest rate is determined for the following period)** | 45 days |
| **Lifetime interest rate floor during the adjustable rate term** | Margin |
Section 1204.  Prepayment Terms Applicable to Hybrid ARM Loans (08/28/17)

A Hybrid ARM Loan may have any of the following Prepayment Premium options:

- standard yield maintenance; or
- graduated Prepayment Premium, with the following schedules:

<table>
<thead>
<tr>
<th>Hybrid ARM Loan Fixed Rate Term</th>
<th>Available Prepayment Premium Schedules</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 years</td>
<td>• 5-4-3-2-1</td>
</tr>
<tr>
<td></td>
<td>• 3-2-1-1-1</td>
</tr>
<tr>
<td>7 years</td>
<td>• 5-5-4-4-3-2-1</td>
</tr>
<tr>
<td></td>
<td>• 3-3-2-2-1-1-1</td>
</tr>
<tr>
<td>10 years</td>
<td>• 5-5-4-4-3-2-2-1-1-1</td>
</tr>
<tr>
<td></td>
<td>• 3-3-3-2-2-2-2-2-1-1-1-1</td>
</tr>
</tbody>
</table>

A Hybrid ARM Loan is subject to a Prepayment Premium if a Prepayment occurs prior to the last day of the fixed rate term. The Prepayment Premium Period End Date will be the last day of the fixed rate term, and the Hybrid ARM Loan may be prepaid without any Prepayment Premium:

- on the last day of the fixed rate term; or
- at any time during the adjustable rate term.

Prepayment Premiums are shared with the Lender as set forth in Part V, Section 213 based on the applicable Prepayment Premium schedule for a fixed rate Mortgage Loan.

Section 1205.  Interest Rate Conversion Date (08/28/17)

The interest rate on the Hybrid ARM Loan will convert automatically from the fixed rate to the adjustable rate on the first day of the first Loan Year of the adjustable rate term (the “Hybrid ARM Loan Conversion Date”), which is also the last date on which a payment of Principal and Interest is due for the fixed rate term. The Hybrid ARM Loan Conversion Date is always the first day of the first calendar month after the expiration of:

- the first 5 Loan Years for a Hybrid ARM Loan with a 5 year fixed rate term;
- the first 7 Loan Years for a Hybrid ARM Loan with a 7 year fixed rate term; or
- the first 10 Loan Years for a Hybrid ARM Loan with a 10 year fixed rate term.
Example: If the Effective Date of the Loan Documents is July 1, 2017, and the Hybrid ARM Loan has a 7 year fixed rate term, then the Hybrid ARM Loan Conversion Date is July 1, 2024. If a Hybrid ARM Loan with a 7 year fixed rate term has an Effective Date on any other date in July, 2017, then the Hybrid ARM Loan Conversion Date will be August 1, 2024.

This conversion of the interest rate from fixed to adjustable is mandatory, and cannot be modified under any circumstances after Fannie Mae has confirmed the Commitment for the Hybrid ARM Loan.

From and after the Hybrid ARM Loan Conversion Date through and including the Maturity Date, the Hybrid ARM Loan will accrue interest at the applicable adjustable rate. Each date after the Hybrid ARM Loan Conversion Date on which the interest rate on the Hybrid ARM Loan adjusts in accordance with any fluctuation in the Index is referred to as a “Rate Change Date”.

Section 1206. Monthly Principal and Interest Payments (08/28/17)

Section 1206.01. During the Fixed Rate Term

The monthly installments of Principal and Interest equal the amount required to repay the Unpaid Principal Balance of the Hybrid ARM Loan in substantially equal payments over the Amortization term at the fixed interest rate, using an Actual/360 interest accrual Amortization schedule, as specified in the Loan Documents.

Section 1206.02. On the Hybrid ARM Loan Conversion Date

On the Hybrid ARM Loan Conversion Date, the Borrower must make the last regularly scheduled payment of Principal and Interest for the fixed rate term.

Section 1206.03. During the Adjustable Rate Term

On the first day of the month immediately following the Hybrid ARM Loan Conversion Date, and on the first day of each month thereafter until the Maturity Date of the Hybrid ARM Loan, the Borrower must make consecutive installments of Principal and Interest based on changes to the Index, plus the Margin, as provided in this Section. Following any change in the Index, the recalculated Principal and Interest installment becomes effective on the first day of the following month, as set forth in the Loan Documents.
Section 1206.04. Allocation of Principal Portion during the Adjustable Rate Term

The monthly installments of Principal and Interest due on the first payment date during the adjustable rate period and thereafter equal the amount required to repay the Unpaid Principal Balance of the Hybrid ARM Loan in substantially equal payments over the remaining Amortization term at the interest rate in effect on the most recent Rate Change Date, using a 30/360 interest accrual method Amortization schedule, even though the Loan Documents specify that the amount of each installment allocated to interest on the Mortgage Loan is based on an Actual/360 interest accrual method. The amount of each monthly installment allocated to principal will be determined by subtracting from such payment the amount allocated to interest following each rate change as described above and set forth in the Loan Documents.
Part IVA – Mortgage Loan Commitment, Delivery, And Purchase Procedures

Chapter 1 – General Mortgage Loan Purchase Requirements

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Chapter 1 – General Mortgage Loan Purchase Requirements

Section 101. Overview of Part IV (06/02/14)

Part IVA contains the basic requirements for obtaining a Commitment and completing the Delivery of Mortgage Loans underwritten pursuant to this Guide. The provisions of Part IVA apply to all Mortgage Loans, except as expressly modified by Part IVB.

Part IVB contains additional requirements for, or modifications to, the procedures for obtaining a Commitment and completing the Delivery of Mortgage Loans with certain special product features or executions including:

- ERL Mortgage Loans;
- Streamlined Rate Lock Mortgage Loans; and
- Structured Transactions/DMBS.

Section 102. Lender Eligibility (06/02/14)

The Lender may obtain a Commitment and deliver a Mortgage Loan to Fannie Mae only if the Lender Contract is in full force and effect and the Lender continues to satisfy the eligibility requirements set forth in Part II.

Section 103. Purchase Types (06/02/14)

An eligible Mortgage Loan may be purchased by Fannie Mae as an MBS Mortgage Loan or a Cash Mortgage Loan as agreed to by Fannie Mae and evidenced by a Commitment.

Section 104. MBS Eligibility (06/02/14)

To be eligible for purchase by Fannie Mae as an MBS Mortgage Loan, the Mortgage Loan must comply with the requirements of this Part IVA, including all MBS disclosure requirements. The following Mortgage Loan types are not eligible for purchase in exchange for an MBS unless otherwise approved by Fannie Mae:

- Credit Enhancement Mortgage Loans;
- Hybrid ARM Loans;
- Refi Plus Mortgage Loans;
- Mortgage Loans subject to a Single Asset Substitution option; and
- any other Mortgage Loans identified in the Pricing Memo as MBS-ineligible.
# Part IVA – Mortgage Loan Commitment, Delivery, and Purchase Procedures

## Chapter 2 – Pricing, Origination Fees, and Prepayment Premium Incentives

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Chapter 2 – Pricing, Origination Fees, and Prepayment Premium Incentives

Section 201. Pricing Memos (01/23/17)

Fannie Mae periodically issues separate Pricing Memos for DUS Lenders and non-DUS Lenders that set forth the parameters of Lender-delegated pricing, including Guaranty Fees and Servicing Fees, for certain Mortgage Loans. The Pricing Memos contain pricing delegated to the Lender for Mortgage Loans that satisfy the requirements set forth in Part III and in the Multifamily Underwriting Standards. The terms of the Pricing Memos, as in effect from time to time, are incorporated by reference into this Guide.

To inquire about non-delegated pricing, the Lender must contact the Fannie Mae Deal Team and submit all requested loan options in DUS Gateway.

Section 202. Required Fees and Lender Compensation (10/13/14)

The Lender must charge and collect various fees for underwriting, originating, and servicing the Mortgage Loan, as set forth in the Pricing Memo and the Guide. Fannie Mae reserves the right to review periodically the reasonableness of any fees the Lender charges for a Mortgage Loan.

Section 202.01. Origination Fee

The Lender is required to charge the Borrower an origination fee for underwriting and originating the Mortgage Loan (the “Origination Fee”). The Origination Fee may not be less than the amount set forth below (the “Minimum Origination Fee”).

<table>
<thead>
<tr>
<th>Mortgage Loan Amount</th>
<th>Minimum Origination Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than or equal to $9 million</td>
<td>1% of the Mortgage Loan amount</td>
</tr>
<tr>
<td>Greater than $9 million and less than or equal to $20 million</td>
<td>Greater of 0.8% of the Mortgage Loan amount or $90,000</td>
</tr>
<tr>
<td>Greater than $20 million and less than or equal to $50 million</td>
<td>Greater of 0.5% of the Mortgage Loan amount or $160,000</td>
</tr>
<tr>
<td>Greater than $50 million and less than or equal to $75 million</td>
<td>Greater of 0.375% of the Mortgage Loan amount or $250,000</td>
</tr>
</tbody>
</table>
Greater than $75 million  
Greater of 0.25% of the Mortgage Loan amount or $281,250

If, as permitted under the Pricing Memo, the Lender collects a pricing premium for the Mortgage Loan, the Lender may apply its share of the premium to pay some or all of the Minimum Origination Fee.

The Lender must:

- collect the Minimum Origination Fee (less any portion of the pricing premium applied by the Lender as provided in the preceding paragraph); and
- retain at least 50% of the Minimum Origination Fee (the “Retained Portion”).

Any portion of the Origination Fee in excess of the Retained Portion may be used by the Lender to pay correspondent or broker fees for the origination of the Mortgage Loan. No portion of the Origination Fee may be used by the Lender for:

- payment of third party expenses related to the Mortgage Loan, including but not limited to, costs of the Appraisal, Physical Condition Assessment (“PCA”), Environmental Site Assessment, or Lender’s counsel fees, except that the Lender may use the Origination Fee to pay third party expenses related to a Choice Refinance Loan; or
- rebates to the Borrower or any party related to the Borrower, including payment of any (i) Good Faith Deposit, or (ii) any yield maintenance, prepayment premium, or other fee payable by the Borrower in connection with any loan that is being repaid or refinanced with the proceeds of the Mortgage Loan.

Section 202.02. Servicing and Guaranty Fees

The Lender must include a Servicing Fee and a Guaranty Fee as part of the interest rate charged to the Borrower on the Mortgage Loan. The amount of the Servicing Fee and the Guaranty Fee is determined under the Pricing Memo or, for any Mortgage Loan not covered by a Pricing Memo, by Fannie Mae, in its discretion.

Section 202.03. Other Fees

The Lender may collect and retain other charges or fees as are permitted elsewhere in this Guide or in the Pricing Memo.
Section 203. Choice Refinance Loans – Origination Fees and Prepayment Premiums (05/08/17)

Section 203.01. General

As an incentive for Borrowers to enter into a Choice Refinance Loan, a reduced Origination Fee and Prepayment Premium are available.

Section 203.02. Reduced Origination Fees

The Minimum Origination Fee for Choice Refinance Loans is:

- if the original principal amount is less than or equal to $50 million, 50 basis points calculated on the original principal amount; and
- if the original principal amount is greater than $50 million, as provided in the Minimum Origination Fee chart in Section 202.01 of this Chapter.

Section 203.03. Reduced Prepayment Premiums on Portfolio Mortgage Loans Refinanced with Fannie Mae

The Loan Documents detail any Prepayment Premium applicable to a Mortgage Loan. The Loan Documents generally require the Borrower to pay a minimum Prepayment Premium equal to 1% of the UPB (the “Minimum 1% Prepayment Premium”) prior to an open period when the Mortgage Loan may be prepaid with no Prepayment Premium. If the Portfolio Mortgage Loan has a Prepayment Premium minimum other than 1%, the Lender should contact the Fannie Mae Deal Team to discuss any Prepayment Premium waivers.

The Minimum 1% Prepayment Premium for a Portfolio Mortgage Loan may be waived only under the circumstances described in this Section 203. If the Portfolio Mortgage Loan is not refinanced with Fannie Mae, the Prepayment Premium must be paid in full in accordance with the Loan Documents. The Prepayment Premium shall be allocated between the Lender, Fannie Mae, and the Investor in accordance with the terms set forth in Part V, Section 213.

A. Refinancing Cash Portfolio Mortgage Loans as Choice Refinance Loans

1. Refinancing After the Yield Maintenance Period End Date

The Lender may waive all or any portion of the Minimum 1% Prepayment Premium for any Cash Portfolio Mortgage Loan that is subject to yield maintenance under the Loan Documents but is refinanced after the Yield Maintenance Period End Date.
2. Refinancing During the Yield Maintenance Period

For a Cash Portfolio Mortgage Loan that is subject to yield maintenance and is refinanced during the yield maintenance period, the Lender must contact the Fannie Mae Deal Team to request that Fannie Mae waive any portion of the Minimum 1% Prepayment Premium that exceeds the amount calculated under the yield maintenance formula, if the Prepayment Premium calculated under the yield maintenance formula in the Loan Documents is less than the Minimum 1% Prepayment Premium. For example, if the Prepayment Premium calculated under the yield maintenance formula in the Loan Documents is 0.25% of the UPB, the Lender may request that Fannie Mae waive up to 75 basis points of the Minimum 1% Prepayment Premium. If the Prepayment Premium calculated under the yield maintenance formula is equal to or greater than 1% of the UPB, the Lender may not request a waiver of any of the Minimum 1% Prepayment Premium.

3. Fixed Rate Mortgage Loans subject to a Graduated Prepayment Premium

For a fixed rate Cash Mortgage Loan subject to a graduated Prepayment Premium under the Loan Documents, the Lender may waive all or any portion of the Minimum 1% Prepayment Premium if the Portfolio Mortgage Loan will be refinanced as a Choice Refinance Loan within 6 months of the Maturity Date of the Portfolio Mortgage Loan.

4. ARM Loans and Structured ARM Loans subject to a Graduated Prepayment Premium

After any lockout period under the Loan Documents, the Lender may waive all or any portion of the Prepayment Premium up to 1% of the UPB for a Cash Portfolio Mortgage Loan:

- that is being refinanced as a fixed rate Choice Refinance Loan with either a 7-year or a 10-year term; and
- where the Portfolio Mortgage Loan was either:
  - an ARM Loan with current Plan Number 2159, 2160, 2254, 2255, 3471, or 3472; or
  - a Structured ARM Loan with current Plan Number 3488 or 3487.

The Lender may waive all or any portion of the Minimum 1% Prepayment Premium for a cash ARM Loan with Plan Number 2159 or 3472 that:

- is subject to a conversion option;
- was originated between October 1 and December 31, 2004; and
- is subject to “Prepayment Option 3” under the Loan Documents (i.e., a 5-4-3-2-1 Prepayment Premium Schedule).
B. Refinancing MBS Portfolio Mortgage Loans as Choice Refinance Loans

1. Fixed Rate Mortgage Loans with an MBS Issue Date on or after April 1, 1999 - Refinancing After the Yield Maintenance Period End Date

The Lender may waive all or any portion of the Minimum 1% Prepayment Premium after the Yield Maintenance Period End Date if the Portfolio Mortgage Loan backs an MBS with an Issue Date on or after April 1, 1999.

2. Fixed Rate Mortgage Loans with an MBS Issue Date on or After April 1, 1999 - Refinancing During the Yield Maintenance Period

The Lender must contact the Fannie Mae Deal Team to request that Fannie Mae waive all or any portion of the Minimum 1% Prepayment Premium that exceeds the amount calculated under the yield maintenance calculation if (a) the Portfolio Mortgage Loan backs an MBS with an Issue Date on or after April 1, 1999; (b) the Portfolio Mortgage Loan is in the yield maintenance period; and (c) the Prepayment Premium due, as calculated in accordance with the yield maintenance formula set forth in the Loan Documents, is less than the Minimum 1% Prepayment Premium. For example, if the Prepayment Premium calculated under the yield maintenance formula in the Loan Documents is 0.25% of the UPB, the Lender may request that Fannie Mae waive up to 75 basis points of the Minimum 1% Prepayment Premium. If the Prepayment Premium calculated under the yield maintenance formula is equal to or greater than 1% of the UPB, the Lender may not request a waiver of any of the Minimum 1% Prepayment Premium.

3. Fixed Rate Mortgage Loans with an MBS Issue Date Prior to April 1, 1999

If the fixed rate Portfolio Mortgage Loan backs an MBS with an Issue Date prior to April 1, 1999, no portion of the Minimum 1% Prepayment Premium may be waived during or after the yield maintenance period.

4. Fixed Rate Mortgage Loans subject to a Graduated Prepayment Premium

If the fixed rate Portfolio Mortgage Loan backs an MBS and is subject to a graduated Prepayment Premium under the Loan Documents, the Lender may waive all or any portion of the Minimum 1% Prepayment Premium if the Portfolio Mortgage Loan will be refinanced as a Choice Refinance Loan within 6 months of the Maturity Date of the Portfolio Mortgage Loan.
5. ARM Loans and Structured ARM Loans backing an MBS – Lockout Period Expired

After any lockout period under the Loan Documents, the Lender may waive all or any portion of the Prepayment Premium up to 1% of the UPB for an MBS Portfolio Mortgage Loan:

- that is being refinanced as a fixed rate Choice Refinance Loan with either a 7-year or a 10-year term; and
- where the Portfolio Mortgage Loan was either:
  - an ARM Loan with current Plan Number 2159, 2160, 2254, or 2255; or
  - a Structured ARM Loan with current Plan Number 3488 or 3487.

6. DMBS Mortgage Loans

The Lender may contact the Fannie Mae Deal Team to discuss a Prepayment Premium waiver for a DMBS Portfolio Mortgage Loan.

Section 204. Refi Plus Refinance Mortgage Loans (10/13/14)

For availability of Refi Plus Mortgage Loans, the Lender must contact the Fannie Mae Deal Team.

Section 205. Origination Fee and Prepayment Premium Waivers for Portfolio Mortgage Loans Not Being Serviced by the Refinance Lender (10/13/14)

If the Lender is refinancing a Portfolio Mortgage Loan that the Lender has serviced for less than 12 months or that is currently being serviced by another Lender:

- the Minimum Origination Fee will be calculated in accordance with the provisions of Section 202.01 of this Chapter; and
- all or any portion of the Minimum 1% Prepayment Premium for the Portfolio Mortgage Loan may be waived only with the consent of Fannie Mae, in its sole discretion.

Section 206. In Place Loan Fees (01/23/17)

This Section only applies to In Place Loans (see Part V, Chapter 8 for further information).
**Section 206.01. Level 2 Fees**

For a Level 2 In Place Loan, the Lender may charge the following Origination Fee.

<table>
<thead>
<tr>
<th>Mortgage Loan Amount</th>
<th>Maximum Origination Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than or equal to $50 million</td>
<td>Up to 0.5% of the Mortgage Loan amount</td>
</tr>
<tr>
<td>Greater than $50 million, but less than or equal to $75 Million</td>
<td>Up to the greater of 0.375% of the Mortgage Loan amount or $250,000</td>
</tr>
<tr>
<td>Greater than $75 million</td>
<td>Up to the greater of 0.25% of the Mortgage Loan amount or $281,250</td>
</tr>
</tbody>
</table>

**Section 206.02. Level 3 Fees**

For a Level 3 In Place Loan, the Lender must not charge an Origination Fee, but may charge the following underwriting and processing fee.

<table>
<thead>
<tr>
<th>Mortgage Loan Amount</th>
<th>Underwriting and Processing Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than or equal to $9 million</td>
<td>Up to $10,000</td>
</tr>
<tr>
<td>Greater than $9 million, but less than or equal to $20 million</td>
<td>Up to the greater of 0.1% of the Mortgage Loan amount or $10,000</td>
</tr>
<tr>
<td>Greater than $20 million, but less than or equal to $50 million</td>
<td>Up to the greater of 0.075% of the Mortgage Loan amount or $20,000</td>
</tr>
<tr>
<td>Greater than $50 million</td>
<td>Up to $37,500</td>
</tr>
</tbody>
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**Section 206.03. Pricing Premiums**

No pricing premiums are allowed in connection with In Place Loans.
Chapter 3 – Committing

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Chapter 3 – Committing

Section 301. General (06/02/14)

This Chapter sets forth the requirements for obtaining a Rate Lock and Commitment for Mortgage Loans. Part IVB covers additional requirements for Mortgage Loans with certain special product features or executions.

Section 302. Requirements for Rate Lock and Commitment (03/19/18)

Section 302.01. Pre-Commitment Terms

Prior to obtaining a Rate Lock or a Commitment for a Mortgage Loan, the Lender must:

- register the Mortgage Loan in DUS Gateway, as required in Part IIIA, Section 203;
- underwrite the Mortgage Loan as required in Part III; and
- obtain Fannie Mae approval as required for Guide waivers, pricing waivers, and Loan Document modifications.

The Lender may not request a Rate Lock or Commitment for a Pre-Review Mortgage Loan without the prior written consent of Fannie Mae as required in Part IIIA, Section 205, provided that the Lender may obtain an Early Rate Lock for certain Pre-Review Mortgage Loans if permitted by Part IVB, Section 101.

Section 302.02. Borrower Commitment

Prior to obtaining a Rate Lock or a Commitment for a Mortgage Loan, the Lender and the Borrower must have entered into a legally binding Borrower Commitment that, at a minimum:

- requires that the Good Faith Deposit be deposited with the Lender pursuant to Section 304 of this Chapter;
- requires that the Borrower be liable to the Lender for all damages, obligations, and liabilities relating to a failed origination of the Mortgage Loan, in an amount at least equal to the Lender’s liability to the Investor under the Rate Lock (for Multifamily Trading Desk trades (MBS or cash), the Minimum Good Faith Deposit serves as liquidated damages for a failed Delivery);
- requires that the Mortgage Loan Origination Date be early enough for the Lender to deliver the Mortgage Loan by the Delivery Deadline; and
describes the Prepayment Premium Option that will be included in the Loan Documents.

Fannie Mae will consider, on a case-by-case basis, specially negotiated Prepayment Premiums requested by the Lender. The Lender must receive written approval from the Fannie Mae Deal Team of any specially negotiated Prepayment Premiums prior to entering into the Borrower Commitment, the Rate Lock, or the Commitment. For MBS Mortgage Loans with negotiated Prepayment Premium provisions, Additional Disclosure is required and a Prospectus Supplement must be prepared by Fannie Mae. Fixed + 1 Loans are not eligible for negotiated Prepayment Premiums.

Section 302.03. Trading Agreements

For all MBS or cash trades with the Multifamily Trading Desk, the Required Practices set forth below and the terms of this Chapter shall constitute the “trading agreement” between the Lender and the Multifamily Trading Desk. By entering into a MBS or cash trade with the Multifamily Trading Desk, the Lender is deemed to have accepted and agreed to be bound by the Required Practices and the terms of the Guide.

The Lender may also sell the MBS to a Third Party MBS Investor or retain the MBS on its own balance sheet (either, a “Lender-Arranged Sale”). Prior to the Lender’s initial trade with a Third Party MBS Investor, the Lender must enter into a trading agreement with, or have written procedures for trading practices approved by, such Third Party MBS Investor (the “Third Party MBS Trading Agreement”).

Section 302.04. Required Practices for Committing and Delivering Mortgage Loans to Fannie Mae

To reduce the risk of failed Deliveries and, for MBS Mortgage Loans, to reduce errors in the disclosure documents, the Lender must comply with the Required Practices as well as with any additional requirements imposed by the Investor.

“Required Practices” means:

1. The Lender must establish an asset counterparty account with the Multifamily Trading Desk, designating the individuals authorized to transact business on the Lender’s behalf and providing an address and wiring instructions to be used for the Lender. The Lender must promptly notify the Multifamily Trading Desk of any changes that occur from time to time in the Lender’s authorized individuals or other account information.

2. Prior to the execution of the Rate Lock and trade, the Lender must have provided the Minimum Required Trade Information to all potential Investors from which the Lender has solicited investor interest or pricing information, using:
• Form 4097.Fixed Rate – Multifamily Required Trade Information for Cash or MBS, for a fixed Rate Mortgage Loan; or
• Form 4097.ARM – Multifamily Required Trade Information for Cash or MBS, for an ARM Loan, SARM Loan, or Hybrid ARM Loan.

The information provided to the potential Investors must ultimately match the corresponding information submitted to Fannie Mae by the Lender when delivering the Mortgage Loan. Any change in the terms of the Minimum Required Trade Information occurring after Rate Lock must be communicated to the Investor prior to Delivery of the Mortgage Loan to Fannie Mae.

3. For MBS Mortgage Loans, the Minimum Required Trade Information must include any Additional Disclosure items discussed in Part IVA, Section 604 and specifically described in the Additional Disclosure Guidance (Form 4098).

4. The Lender must inform the Investor that Fannie Mae will accept the Mortgage Loan for purchase so long as the Delivered Mortgage Loan Amount is within the Delivery Tolerance set forth in Part IVA, Section 401.

5. All trades will be governed, and in the event of a conflict will be controlled in the following order of priority, by the Rate Lock, the Third Party MBS Trading Agreement (if applicable), the provisions of this Part IVA, any applicable provisions of Part IVB, and the Lender Contract.

6. The Lender must comply with all applicable provisions of the Pricing Memo.

7. The Lender must collect the Good Faith Deposit from the Borrower as set forth in Section 304 of this Chapter.

8. The Rate Lock must include the Minimum Required Trade Information (including any Additional Disclosure items) and state the Rate Lock Expiration Date.

9. For any Rate Lock with the Multifamily Trading Desk, the Lender must be acting as a principal or, with Fannie Mae’s prior written consent, as an agent for a disclosed principal.

10. The Lender may not assign a Rate Lock with the Multifamily Trading Desk without Fannie Mae’s prior written consent.

11. Within 1 Business Day after obtaining the Rate Lock, the Lender must request a Commitment, as described in Section 305 of this Chapter.
12. For an MBS Mortgage Loan, any Additional Disclosure items must be specified in the request for a Commitment.

13. The Lender must promptly report any MBS Investor delivery contract disputes, including any failed Deliveries, to the Fannie Mae Representative.

For MBS Mortgage Loans, once the Security is delivered to the Investor, the Lender must direct all subsequent investor inquiries to the MBS Investor hotline at 1-800-BEST-MBS.

Section 303. Obtaining a Rate Lock (03/19/18)

Section 303.01. General

The Lender must obtain the Rate Lock for a Mortgage Loan prior to requesting a Commitment. For an MBS Mortgage Loan, the Rate Lock must identify any matters requiring Additional Disclosure.

The Rate Lock is a legally binding obligation by the Lender to make Delivery, by the Delivery Deadline, of a Mortgage Loan meeting the terms of the Rate Lock, the Commitment, and this Guide.

Section 303.02. Rate Lock Periods

The available Rate Lock Periods and permitted Investors are set forth below:

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<tr>
<th>RATE LOCK PERIOD</th>
<th>PERMITTED INVESTOR</th>
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</thead>
<tbody>
<tr>
<td>Up to and including 180 days</td>
<td>• Multifamily Trading Desk (MBS or cash); or</td>
</tr>
<tr>
<td></td>
<td>• Third Party MBS Investor</td>
</tr>
<tr>
<td>More than 180 days, with prior approval by the Fannie Mae Deal Team</td>
<td>• Multifamily Trading Desk only (MBS or cash)</td>
</tr>
</tbody>
</table>

After obtaining a Rate Lock, the Rate Lock Expiration Date may be extended as provided in Section 305.03 of this Chapter.

Section 303.03. Rate Lock Amount

The Lender must determine the Rate Lock Amount based on a full underwriting of the Mortgage Loan in accordance with the requirements of this Guide. The Rate Lock Amount is the final Mortgage Loan amount, subject only to the Delivery Tolerance described in Part IVA, Section 401.
Section 303.04. Locking the Rate

Prior to obtaining the Rate Lock for a Mortgage Loan, the Lender must:

- determine the Guaranty Fee and the Servicing Fee pursuant to Part IVA, Chapter 2; and
- comply with the Required Practices.

A. Lender-Arranged Sale to a Third Party MBS Investor

For a Lender-Arranged Sale to a Third Party MBS Investor, the Lender and the Third Party MBS Investor will negotiate the Pass-Through Rate, the purchase price, and any delivery or purchase conditions for the MBS. The agreed terms will be evidenced in the Rate Lock between the Lender and the Third Party MBS Investor.

B. Lender Sale to Fannie Mae as MBS Investor

For MBS trades with the Multifamily Trading Desk, the Lender will negotiate with the Multifamily Trading Desk the Pass-Through Rate, the purchase price, and any delivery or purchase conditions for the MBS. To obtain a quote, the Lender must call the Multifamily Trading Desk. Upon acceptance of the quote, the terms will be evidenced by a Rate Lock between the Lender and Fannie Mae. The Lender consents to the recording of all telephone conversations with the Multifamily Trading Desk and agrees that any Rate Lock made during such conversations is a legally binding obligation. Fannie Mae will send the Lender, by e-mail, a confirmation of the MBS trade with the Multifamily Trading Desk. The Lender must notify the Multifamily Trading Desk promptly if the Lender (i) finds any errors in the confirmation; or (ii) has not received a confirmation within 2 Business Days after the MBS trade date. If there is a conflict between the recorded telephone conversation and the confirmation, the recorded conversation will prevail to establish the terms of the Multifamily Trade Desk MBS trade.

C. Lender Sale to Fannie Mae for Cash

To obtain a quote for a Cash Mortgage Loan, the Lender must call the Multifamily Trading Desk. If Fannie Mae agrees to purchase the Mortgage Loan for cash, the Multifamily Trading Desk will provide the Lender with a Pass-Through Rate and the purchase price for the Mortgage Loan. The Lender consents to the recording of all telephone conversations with the Multifamily Trading Desk and agrees that a Rate Lock made during such conversations is a legally binding obligation.

Section 303.05. Right to Decline Trades

The Multifamily Trading Desk may decline to participate in any trade. Fannie Mae reserves the right to terminate the Lender’s trading account and the Lender’s ability to use the services of the Multifamily Trading Desk at any time in Fannie Mae’s sole discretion.
time to time, particularly during periods of pronounced market volatility, Fannie Mae may find it necessary to stop entering into Rate Locks. Fannie Mae will attempt to provide advance notice of any such suspension of trades but reserves the right to stop entering into Rate Locks at any time without prior notice.

Section 304. Good Faith Deposits (05/18/15)

Section 304.01. Deposit Required

Before entering into a Rate Lock, the Lender must collect a Good Faith Deposit from the Borrower. The Good Faith Deposit may be in the form of either cash or a letter of credit conforming to the standards set forth in Section 304.04 of this Chapter. For Choice Refinance Loans that involve trades with the Multifamily Trading Desk, the Lender may contact the Fannie Mae Deal Team to request the right to spread the lien of the existing Security Instrument to secure the Good Faith Deposit in lieu of cash or a letter of credit.

“Good Faith Deposit” means:

- the “Minimum Good Faith Deposit” required by Section 304.02 of this Chapter; plus
- any additional deposit required by a Third Party MBS Investor; plus
- any other deposit required by the Lender.

Section 304.02. Minimum Good Faith Deposit

The “Minimum Good Faith Deposit” will be determined based on the Rate Lock Period and the Rate Lock Amount, as follows:

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<tr>
<th>RATE LOCK PERIOD</th>
<th>MINIMUM GOOD FAITH DEPOSIT</th>
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<tr>
<td>For a Mortgage Loan with a Rate Lock Amount of $5 million or less that has a Rate Lock Period up to and including 90 days</td>
<td>1% of the Rate Lock Amount</td>
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<tr>
<td>For a Mortgage Loan with a Rate Lock Amount of greater than $5 million that has a Rate Lock Period up to and including 90 days</td>
<td>2% of the Rate Lock Amount</td>
</tr>
<tr>
<td>For a Supplemental Mortgage Loan of any amount that has a Rate Lock Period up to and including 90 days</td>
<td>2% of the Rate Lock Amount</td>
</tr>
<tr>
<td>For a Mortgage Loan or a Supplemental Mortgage Loan that has a Rate Lock Period of more than 90 days and up to and including 180 days</td>
<td>3% of the Rate Lock Amount</td>
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For a Mortgage Loan that has a Rate Lock Period of more than 180 days, but only with prior approval by the Fannie Mae Deal Team, At least 3% of the Rate Lock Amount (The Lender must contact the Fannie Mae Deal Team to obtain the actual amount of the Minimum Good Faith Deposit.)

For any Multifamily Trading Desk trade (MBS or cash) involving terms or parties outside the normal practices of the Multifamily Trading Desk, the Multifamily Trading Desk reserves the right, in its sole discretion, to increase the amount of the Minimum Good Faith Deposit.

For all Multifamily Trading Desk trades (MBS or cash), the Lender shall hold the Minimum Good Faith Deposit for the benefit of Fannie Mae. For all Lender-Arranged Sales, the Lender shall hold the Minimum Good Faith Deposit (and any additional deposit required by the Third Party MBS Investor) for the benefit of the Third Party MBS Investor or may deliver it to the Third Party MBS Investor as required by the Third Party MBS Trading Agreement.

Unless otherwise applied pursuant to the terms of Part IVA, Chapter 7, the Lender must refund the Good Faith Deposit to the Borrower no earlier than the Mortgage Loan Origination Date and within a commercially reasonable time after Fannie Mae purchases the Mortgage Loan, as provided in Part IVA, Chapter 6.

**Section 304.03. Breakage Fee for Failed Delivery**

The breakage fee for a failed Delivery for a Lender-Arranged Sale shall be as provided in the Rate Lock and Third Party MBS Trading Agreement. The breakage fee for a failed Delivery for a Multifamily Trading Desk trade (MBS or cash) shall be equal to the Minimum Good Faith Deposit. If Fannie Mae has approved a Multifamily Trading Desk trade (MBS or cash) in excess of 180 days, the Multifamily Trading Desk will determine the breakage fee for a failed Delivery.

**Section 304.04. Letters of Credit**

The Lender may allow the Borrower to fund all or a portion of the Good Faith Deposit by delivery of a letter of credit to the Lender. Should the Lender elect to accept a letter of credit:

1. the Lender remains solely liable and responsible to Fannie Mae for the Good Faith Deposit, and hereby indemnifies Fannie Mae for any loss or damages that may be incurred relating to a failed delivery, and

2. for Lender-Arranged Sales, the Lender should confirm whether the letter of credit is acceptable to the Third Party MBS Investor.

If the Lender accepts delivery of a letter of credit for all or a portion of the Good Faith Deposit, it is recommended that (a) the expiration date of the letter of credit extend 15 days beyond the later of the Rate Lock Expiration Date or the Commitment Expiration Date and (b)
the letter of credit expiration date be extended if the Rate Lock Expiration Date or the Commitment Expiration Date is extended.

Section 305. Commitment Terms and Procedures (03/19/18)

Section 305.01. General Commitment Provisions

Each Commitment is issued for a single Mortgage Loan, but a Mortgage Loan may be secured by one or more Properties. Once a Commitment has been confirmed, the Property securing the Mortgage Loan must remain the same and may not be replaced by a substitute property. A Commitment is not assignable. Fannie Mae may reject any request for a Commitment or decline to confirm any Commitment.

A. Submission Guidance

The Lender must request a Commitment by 3:30 p.m. Eastern Time on the Business Day after the date the Rate Lock is executed. To obtain a Commitment, the Lender must complete the required fields in C&D and follow all instructions on the C&D screens, including inputting information as required by C&D and the C&D User Manual.

Once the Commitment information is “submitted” in C&D, it may be altered only if Fannie Mae believes that the terms of the Commitment request are not correct or valid. The Lender should contact the Multifamily Acquisitions Team if there are issues submitting information into C&D. The Multifamily Acquisitions Team will contact the Lender if any discrepancies are identified in the submissions.

B. MBS Submissions

MBS Mortgage Loans may have special characteristics that require the preparation and delivery of Additional Disclosure documents which must be identified at the time of the Commitment request. See the Additional Disclosure Guidance (Form 4098) for a list of such characteristics.

Section 305.02. Confirmation of the Commitment

Upon satisfaction of all conditions set forth in this Guide and the Lender Contract, the submitted Commitment is eligible for confirmation. Following Fannie Mae’s confirmation of the Commitment, Fannie Mae and the Lender are legally bound in accordance with the terms of the Commitment. The Lender may use the Commitment to secure warehouse financing or otherwise conduct its business.
Section 305.03. Commitment Modifications

A. Change Requests

After confirmation, if the Lender has made an error or believes that the Commitment is otherwise incorrect, the Lender must submit a data change request in C&D to request revisions. If the revised Commitment terms are acceptable to Fannie Mae, Fannie Mae will modify the Commitment and make the necessary changes to the Commitment data. Fannie Mae reserves the right to reject data changes and may, in its sole discretion, choose either to enforce the Commitment in accordance with the original terms or to terminate the Commitment. If a requested change involves changing the Gross Note Rate, the Lender must withdraw the Commitment and request a new Commitment. See the C&D User Manual for further details on “Change Requests.”

B. Rate Lock Extensions

1. For Multifamily Trading Desk Trades (MBS or cash): To extend the Rate Lock Expiration Date for any Mortgage Loan with an initial Rate Lock Period of 90 days or less, the Lender must notify the Multifamily Trading Desk. Upon the agreement of the Lender to pay the Rate Lock Extension Fee, the Rate Lock Expiration Date shall automatically be extended to the date that is 30 days after the original Rate Lock Expiration Date. The Lender must contact the Multifamily Trading Desk for approval of any Rate Lock extension, with any approval being subject to such additional fees as may be required, for:
   - any Mortgage Loan with an initial Rate Lock Period of more than 90 days;
   - an extension in excess of 30 days for any Mortgage Loan; or
   - an extension for an additional period after the initial 30 day extension permitted above.

If any Rate Lock extension would cause the total Rate Lock Period to exceed 90 days, Fannie Mae reserves the right to increase the Minimum Good Faith Deposit. If any Rate Lock extension would cause the total Rate Lock Period to exceed 180 days, the Lender must also contact the Fannie Mae Deal Team for approval before seeking the extension (e.g., no extension is permitted for a Mortgage Loan with an initial Rate Lock Period in excess of 150 days without the approval of the Fannie Mae Deal Team).

2. For Lender-Arranged Sales: The Lender may negotiate an extension of the Rate Lock Expiration Date with the Third Party MBS Investor. Such extension may not exceed 30 days following the original Rate Lock Expiration Date and may not cause the total Rate Lock Period to exceed 180 days (e.g., no extension is permitted for a Mortgage Loan with an initial Rate Lock Period in excess of 150 days without the approval of the Fannie Mae Deal Team). Any approved extension request (a) may require adjustment to the locked interest rate, as determined by the Third Party MBS
Investor; and (b) may require Lender to pay any fees charged by the Third Party MBS Investor.

The “Rate Lock Extension Fee,” for the purpose of this section, means a fee equal to:

(a) for a Multifamily Trading Desk trade (MBS or cash), an amount equal to 0.375% of the Rate Lock Amount which amount may, at the discretion of Fannie Mae, be taken as a reduction in the purchase price of the Mortgage Loan; and

(b) for a Lender-Arranged Sale, any fee charged by the Third Party MBS Investor.

C. Commitment Extensions

If the Lender obtains an extension of the Rate Lock Expiration Date, the Lender must submit a request for an extension of the Commitment. To request such extension, the Lender must submit a data change request in C&D on or before the Commitment Expiration Date. For MBS Mortgage Loans, the Lender must also obtain any necessary approval from the MBS Investor of any change in the Book-Entry Date. Fannie Mae will make the changes to the Lender’s C&D Commitment submission to reflect the revised Commitment Expiration Date and, if applicable, the revised Book-Entry Date. If the change request involves a change to the Gross Note Rate, the Lender must withdraw the Commitment and request a new Commitment in accordance with the terms of this Section 305.

Upon approval of the extension request, Fannie Mae will provide a revised Commitment Expiration Date.

Section 306. ASAP Contracts (05/08/17)

Section 306.01. ASAP Options

Certain Lenders have entered into one or more “Multifamily As Soon As Pooled Sale” agreements (commonly referred to as ASAP contracts) pursuant to which the Lender may close and fund ASAP eligible Mortgage Loans and deliver such Mortgage Loans to Fannie Mae for purchase earlier than is otherwise permitted under this Guide. This Section 306 applies only to such Mortgage Loans.

The ASAP Sale and ASAP Plus (including ASAP Plus POC) purchase options (“ASAP Options”) allow the Lender to sell Mortgage Loans to Fannie Mae on an accelerated basis following the Mortgage Loan Origination Date. ASAP Sale is available for MBS Mortgage Loans only. ASAP Plus (including ASAP Plus POC) is available for both MBS Mortgage Loans and Cash Mortgage Loans.

To participate in the ASAP Options, the Lender must apply to Fannie Mae and be approved, as provided in Section 306.02 of this Chapter. If approved, the Lender must execute:
- for ASAP Sale, an ASAP Sale Contract; or
- for ASAP Plus, an ASAP Plus Contract; or

For MBS Mortgage Loans, in addition to an ASAP Plus Contract or an ASAP Plus POC Contract, the Lender must execute an ASAP Sale Contract. The Capital Markets Early Funding Desk will provide the applicable ASAP Contracts to the Lender for execution.

**Section 306.02. Lender Eligibility for ASAP Options**

If the Lender is interested in any of the ASAP Options, the Lender must apply to the Fannie Mae Representative for approval to participate. The Lender’s eligibility to use any of the ASAP Options will be determined by Fannie Mae in its sole discretion. If Fannie Mae approves the Lender to use an ASAP Option, Fannie Mae will notify the Lender of such approval and of the maximum volume of participation available to the Lender under the approved ASAP Option.

If the Lender is approved to use an ASAP Option, Fannie Mae will review the Lender on a periodic basis to determine continued eligibility and the approved maximum volume. Notwithstanding any prior approval, Fannie Mae reserves the right to prohibit the Lender from delivering Mortgage Loans under the ASAP Options at any time and for any reason, including, but not limited to, the Lender’s financial capacity or the performance of the Mortgage Loans the Lender has delivered to Fannie Mae under the ASAP Options.

**Section 307. Choice Refinance Loans (05/18/15)**

The Lender may obtain a Rate Lock for a Choice Refinance Loan pursuant to the requirements of Part IIIC, Chapter 3 up to 180 days prior to the Prepayment Premium Period End Date for the Portfolio Mortgage Loan being refinanced. The Lender must verify the Prepayment Premium Period End Date of the Portfolio Mortgage Loan prior to entering into the Rate Lock.

See Section 304.01 of this Chapter for information on Good Faith Deposits for Choice Refinance Loans.
## Chapter 4 – Delivery Procedures - Data

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Section 401. General (05/08/17)

Section 401.01. Timing of Delivery

The Lender must make Delivery by the Delivery Deadline to ensure timely purchase of the Mortgage Loan by Fannie Mae. On or before the Delivery Deadline, the Lender must submit:

- the Mortgage Loan data, other than the “eRents” data, through C&D as required by this Chapter 4 and the C&D User Manual; and
- the Mortgage Loan Delivery Package as required by Part IVA, Chapter 5.

The “eRents” data must be submitted to Fannie Mae by the earlier of:

- 5 Business Days after the Mortgage Loan Origination Date; or
- the Mortgage Loan Delivery Deadline.

“Delivery Deadline” means:

- for MBS Mortgage Loans, 7 Business Days prior to (and not including) the Book-Entry Date, and
- for Cash Mortgage Loans, 3 Business Days prior to (and not including) the earlier of the Rate Lock Expiration Date and the Commitment Expiration Date.

If the Lender does not meet the Delivery Deadline, Fannie Mae may exercise any or all remedies in Part IVA, Chapter 7.

Section 401.02. Submission of Mortgage Loan Information

The Lender must follow all instructions on the C&D screens, including inputting the information required by C&D and the C&D User Manual. For MBS Mortgage Loans, the information in C&D is used to create disclosure documents and data for the MBS prior to its issuance.

The Lender must follow the validation process required by C&D in order to insure the Mortgage Loan reaches the “submitted” status in C&D. If the Lender believes that C&D is preventing the delivery of valid data, the Lender must e-mail the Multifamily Acquisitions Team. After the Mortgage Loan is “submitted” the Lender must submit a C&D data change request for any further changes. (See the C&D User Manual for details on “Change Requests.”)
Section 401.03. ASAP Data Submission

For a Mortgage Loan funded under an ASAP Option, the Lender must submit Mortgage Loan data in C&D as required by this Chapter, except as otherwise provided in the applicable ASAP Contract. The Lender must select the ASAP Plus, ASAP Plus POC, or the ASAP Sale indicator in C&D, as appropriate.

Section 401.04. Requirements for Mortgage Loan Purchase

A Mortgage Loan will be considered acceptable for purchase by Fannie Mae if:

- the Mortgage Loan complies with the terms of the Lender Contract;
- the Mortgage Loan is in the Pricing and Underwriting Tier required under the Commitment;
- for a Pre-Review Mortgage Loan, the Mortgage Loan complies with the requirements for Pre-Review Mortgage Loans as set forth in Part III, Chapter 2 and the Pricing Memo;
- the Mortgage Loan is current in payment at the time of Delivery;
- for all MBS Mortgage Loans:
  - the Book-Entry Date is prior to the first scheduled monthly payment date of the Mortgage Loan; and
  - the first monthly payment to the MBS Investor is the first monthly payment due under the Mortgage Loan; and
- the Delivered Mortgage Loan Amount is within the Delivery Tolerance, where “Delivery Tolerance” means an amount equal to the Commitment Amount plus or minus (i) 5 percentage points of the Commitment Amount (e.g., the Delivered Mortgage Loan Amount must be at least 95% and not more than 105% of the Commitment Amount to be within the Delivery Tolerance), or (ii) such lesser percentage needed to meet any Third Party MBS Investor delivery requirement (e.g., if a Third Party MBS Investor permits only a plus or minus 3 percentage points delivery tolerance, then the Mortgage Loan will be considered for purchase with a Delivered Mortgage Loan Amount of at least 97% and not more than 103% of the Commitment Amount).

Section 401.05. Failure to Comply with Deadlines; Changing the MBS Book-Entry Date

If the Lender anticipates a delivery problem (such as a late Delivery or a Delivered Mortgage Loan Amount outside of the Delivery Tolerance), as soon as possible the Lender must inform:

- the Multifamily Trading Desk or the Third Party MBS Investor, as applicable;
the Multifamily Acquisitions Team;
the Fannie Mae Representative; and
if an ASAP transaction, the Capital Markets Early Funding Desk.

If the Lender fails to meet the Delivery Deadline, Fannie Mae may exercise any or all remedies as described in Part IVA, Chapter 7, including reporting the error against the Lender’s clean Delivery rate and changing the Book-Entry Date.

If the Book-Entry Date for an MBS must be changed, Fannie Mae will advise the Lender of the earliest available new Book-Entry Date. The Lender must contact the MBS Investor and establish the new Book-Entry Date and, if applicable, a new Rate Lock Expiration Date and Commitment Expiration Date. The Lender must submit a change request pursuant to the provisions of Part IVA, Section 305 for any required changes to the Commitment. The Lender is also responsible for any fees and adjustments to the Pass-Through Rate associated with the new Book-Entry Date.

Section 401.06. Wiring Instructions

The Lender must accurately complete the wiring instructions in C&D, including all requested information on the account and financial institution to which Fannie Mae should wire the funds or the MBS. Fannie Mae will wire the funds or MBS pursuant to the C&D instructions unless there is a conflict between the C&D instructions and any bailee letter from the Lender’s warehouse lender. In the event of a conflict, the bailee letter will control.

Section 401.07. Payee Codes for Wiring Cash Mortgage Loan Proceeds

At the Lender’s request, Fannie Mae will assign up to 10 different payee codes to be used for wire transfers of the Lender’s proceeds from Cash Mortgage Loans. The Lender must request a separate payee code for each account to which funds will be sent. Each payee code will be associated with a specific Lender account at a specific financial institution and may not be transferred between the Lender’s accounts or between Lenders. For each Cash Mortgage Loan, the Lender must load into C&D the payee code associated with the institution and account to which Lender’s funds are to be wired.

Additional information on payee codes can be found at:

https://www.fanniemae.com/content/guide_form/482.pdf; and
Section 402. MBS Specific Delivery Requirements (05/08/17)

Section 402.01. MBS Delivery Options

The Book-Entry Date selected by the Lender dictates whether the delivery option is Same Month Pooling or standard delivery. For Mortgage Loans that are intended to be funded under one of the ASAP Options, the Lender must refer to the applicable ASAP Contract for any ASAP-specific delivery requirements.

See Part IVA, Section 603 for additional information on the delivery and settlement of MBS transactions.

A. Same Month Pooling

If the Lender selects a Book-Entry Date that is in the same month as the Mortgage Loan Origination Date, then Same Month Pooling is required. Specifically, Same Month Pooling is required if:

- the Mortgage Loan Origination Date occurs on the first day of a month and the first payment date under the Mortgage Loan occurs on the first day of the following month, in which case the MBS Book-Entry Date and the MBS Issue Date will both occur in the same month as the Mortgage Loan Origination Date; or

- the Mortgage Loan Origination Date does not occur on the first day of a month but does occur in the same month as the MBS Book-Entry Date and the MBS Issue Date, and the first payment date under the Mortgage Loan occurs on the first day of the second month following the month in which the Mortgage Loan Origination Date occurs.

For example:

- if a Mortgage Loan has a Mortgage Loan Origination Date of November 1, the first payment date under the Mortgage Loan will be December 1, and if the MBS Book-Entry Date will be in November and the MBS Issue Date will be the first day of the month in which the Book-Entry Date occurs, or November 1; and

- if a Mortgage Loan has a Mortgage Loan Origination Date of November 10, the first payment date under the Mortgage Loan will be January 1, and an MBS with a Book-Entry Date of November 20 would have an MBS Issue Date of November 1.

The Same Month Pooling option requires the Lender to originate the Mortgage Loan early enough in the month to allow Fannie Mae to issue the MBS within the same month. As described in Part IVA, Chapter 5 and Chapter 6, the Delivery Date must occur at least 7 Business Days prior to (and not including) the scheduled Book-Entry Date.

See Part V, Chapter 2 for reporting and remitting requirements relating to the first reporting cycle under the Same Month Pooling delivery option.
B. Standard Delivery Option

If Same Month Pooling is not required, then the MBS Mortgage Loan must be delivered using the standard delivery option. Under the standard delivery option:

- the Mortgage Loan Origination Date must occur no later than the month prior to the month in which the MBS will be issued; and
- the MBS must have a Book-Entry Date in the month prior to the first payment date under the Mortgage Loan.

Section 402.02. Special Characteristics and Additional Disclosure

If the Lender determines that an MBS Mortgage Loan has a special characteristic or an Additional Disclosure item that was not identified when the Commitment was confirmed, the Lender must notify the Multifamily Acquisitions Team as soon as possible, but in no event later than 10:30 a.m. Eastern Time 7 Business Days before (but not including) the Book-Entry Date.

Section 402.03. Confirming Pre-settlement MBS Issuance Information

As a best practice for an MBS Mortgage Loan, the Lender should confirm the pre-settlement MBS issuance details with the Capital Markets Operations Allocations Team no later than 3:00 p.m. Eastern Time 2 Business Days before (and not including) the Book-Entry Date.
**Part IVA – Mortgage Loan Commitment, Delivery, And Purchase Procedures**

**Chapter 5 – Delivery Procedures – Documents**

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Chapter 5 – Delivery Procedures – Documents

Section 501. General (06/02/14)

Section 501.01 Custodian

The Document Delivery Facility is Fannie Mae’s Document Custodian responsible for holding the original Note and the originals or copies of all other documents required to be included in the Mortgage Loan Delivery Package. Fannie Mae may appoint or assign a different Document Custodian from time to time to serve this function.

Section 501.02 Delivery

A. Delivery Deadline; Timing of Document Delivery

The Lender must deliver the complete Mortgage Loan Delivery Package to the Document Delivery Facility on or before the Delivery Deadline, as more particularly described in Part IVA, Section 401. It is recommended that the Lender deliver the Mortgage Loan Delivery Package in advance of the Delivery Deadline to allow time to correct any deficiencies Fannie Mae may find. Failure to meet the Delivery Deadline may subject the Lender to the provisions of Part IVA, Section 401 and Part IVA, Chapter 7.

For a Mortgage Loan to be considered delivered on a given Business Day, the Document Delivery Facility must be in possession of the Mortgage Loan Delivery Package by 10:30 a.m. Eastern Time that day. Fannie Mae will certify a Mortgage Loan for purchase on a given Business Day only if the Mortgage Loan Delivery Package and all required C&D data have been submitted by 10:30 a.m. Eastern Time on such day.

If the Lender’s failure to meet the Delivery Deadline requires a change in the Rate Lock Expiration Date, the Lender may be charged a Rate Lock Extension Fee.

B. Location of Delivery

The Lender must submit Folder I (as described in the Multifamily Mortgage Loan Package Table of Contents) to the Document Delivery Facility at the following address:

Fannie Mae (Multifamily)
New Loan Submission
13150 Worldgate Drive
Herndon, VA 22070

Folder II (as described in the Multifamily Mortgage Loan Package Table of Contents) must be submitted electronically via MultiDocExpress.
C. Format of Delivery

The Mortgage Loan Delivery Package must include all documents required in Section 502 of this Chapter.

For MBS Mortgage Loans, if there is more than 1 Mortgage Loan per MBS Pool, the Mortgage Loan Delivery Package must be in the same numerical order as the C&D data submission. If the Lender is using more than 1 overnight courier envelope or container to deliver a Mortgage Loan (or Mortgage Loans) to Fannie Mae, the Lender must label each envelope or container as follows:

- For MBS Pools consisting of more than 1 Mortgage Loan, the Mortgage Loans should be grouped as 1 package, inclusive of all Mortgage Loans within the MBS Pool, labeled according to how many envelopes or containers are submitted with the Loan Documents, such as “1 of 4, MBS Pool #____,” “2 of 4, MBS Pool #____,” etc.

- For Deliveries consisting of 1 Mortgage Loan, the Mortgage Loan Delivery Package should also be labeled according to how many envelopes or containers are submitted with the Loan Documents, such as, “1 of 2,” “2 of 2.”

Section 501.03 Warehouse Lender and Bailee Letter

The Lender may originate the Mortgage Loan with proceeds from a warehouse lender. If the warehouse lender submits the Note to Fannie Mae pursuant to a bailee letter, the bailee letter must be acceptable to Fannie Mae.

Section 501.04 Review of Mortgage Loan Delivery Package

Upon receipt of the Mortgage Loan Delivery Package (including the Folder II MultiDocExpress submission) and the data required in Part IVA, Chapter 4, Fannie Mae will review the documents to verify that:

- the Loan Documents submitted are consistent with the data in C&D and the Commitment, and have been endorsed or assigned to Fannie Mae;

- a title insurance policy covering the Mortgage Loan has been issued in accordance with the provisions of Part IIIA, Section 323 (the Lender may submit the title policy with blanks for the recording information but a final completed title policy with recordation information must be delivered to the Document Delivery Facility no later than 6 months following the Mortgage Loan Origination Date); and

- all other required documents have been submitted.
Section 501.05 Return of Package

If the Lender fails to meet the Delivery Deadline, Fannie Mae may exercise any or all remedies pursuant to Part IVA, Chapter 7. If Fannie Mae does not purchase the Mortgage Loan, the Mortgage Loan documents will be returned to the Lender (or to a warehouse lender if a warehouse lender submitted the Note to Fannie Mae pursuant to a bailee letter) and the Lender will be subject to the provisions of Part IVA, Chapter 7.

Section 502. The Mortgage Loan Delivery Package Contents (06/02/14)

Section 502.01 Mortgage Loan Delivery Documents

The Mortgage Loan must be documented on Fannie Mae’s standard form multifamily Loan Documents, as found at www.FannieMae.com/multifamily, and may be modified only as permitted by the Guide or as otherwise approved or directed by Fannie Mae. Any Loan Document (including any Schedule or Exhibit) that the Lender has modified from the published Fannie Mae form must be delivered in a version marked to show all changes incorporated into the final signed documents.

The Multifamily Mortgage Loan Package Table of Contents must list all Loan Documents included in the Mortgage Loan Delivery Package. All appropriate boxes must be checked, and all other documents executed in connection with the Mortgage Loan must be listed in the Multifamily Mortgage Loan Package Table of Contents. The Multifamily Mortgage Loan Package Table of Contents is available at www.FannieMae.com/multifamily.

Section 502.02 Mortgage Loan Delivery Package Folders

Folder I of the Mortgage Loan Delivery Package must contain all closing documents and must be delivered to Fannie Mae in legal-sized accordion folders marked with the Lender name, Commitment number, and Property name. All documents in Folder I must be held together by binder clips or paperclips. Folder I may not contain any loose documents or any documents that are stapled or held together by a rubber band. All documents in Folder I will be held by Fannie Mae until the Maturity Date or earlier disposition or prepayment of the Mortgage Loan.

Folder II of the Mortgage Loan Delivery Package is comprised of the documents or data that must be delivered to Fannie Mae electronically.

The Multifamily Mortgage Loan Package Table of Contents for Folder I must be included in the front of each folder.

Section 502.03 Participation Interests

From time to time, Fannie Mae may purchase a Participation Interest in a Mortgage Loan. If the Participation Interest is in certificated form, the original certificate of participation or other evidence of the Participation Interest, made in favor of Fannie Mae or accompanied by an assignment of the Participation Interest to Fannie Mae, must be delivered to Fannie Mae. If the
Participation Interest is not in certificated form, original documentation must be delivered to Fannie Mae evidencing conveyance of the Participation Interest to Fannie Mae in accordance with the terms of the instruments establishing the Participation Interest. The Lender must also deliver to Fannie Mae, for any Participation Interest, the items listed in the Multifamily Mortgage Loan Package Table of Contents for the underlying Mortgage Loan.

Section 502.04 ASAP Deliveries

For Mortgage Loans that are intended to be funded under 1 of the ASAP Options, the Lender must refer to the applicable ASAP Contract for any ASAP-specific delivery requirements.
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Chapter 6 – Purchase Procedures

Section 601. General (06/02/14)

Section 601.01 Timing of Purchase

To clear a Mortgage Loan for purchase, Fannie Mae must first evaluate and confirm the Mortgage Loan data and the Mortgage Loan Delivery Package. To give Fannie Mae the time required to complete its review and to timely purchase the Mortgage Loan, the Lender must complete Delivery of the Mortgage Loan by the Delivery Deadline, as follows:

- For an MBS Mortgage Loan:
  - The Lender must complete Delivery no later than 7 Business Days prior to (and not including) the scheduled Book-Entry Date.
  - Fannie Mae will purchase the Mortgage Loan on the Book-Entry Date by wiring the MBS via the Federal Reserve book entry system pursuant to the Lender’s wiring instructions submitted in C&D.

- For a Cash Mortgage Loan:
  - The Lender must complete Delivery no later than 3 Business Days prior to (and not including) the earlier of the Rate Lock Expiration Date and the Commitment Expiration Date.
  - The Lender may request that Fannie Mae purchase the Mortgage Loan prior to the Commitment Expiration Date if Fannie Mae receives the complete Delivery 3 Business Days prior to (and not including) the requested purchase date.
  - Fannie Mae will purchase the Mortgage Loan by wiring the purchase amount via the Lender’s wiring instructions submitted in C&D.

Section 601.02 C&D Notification of Purchase

After Fannie Mae has purchased the Mortgage Loan, C&D will reflect the Mortgage Loan status as “purchased” for Cash Mortgage Loans and as “active issue” for MBS Mortgage Loans.

Section 601.03 Fannie Mae Loan Number

For an MBS Mortgage Loan, the Lender will receive the Loan Number through C&D after Fannie Mae closes the MBS Pool. For a Cash Mortgage Loan, the Lender will receive a Loan Number through C&D after the Lender submits the Mortgage Loan data. The Lender must reference this Loan Number in all future communications with Fannie Mae involving the Mortgage Loan.
Section 602. Purchase Amount; Accrued or Prepaid Interest (06/02/14)

The purchase amount to be paid by Fannie Mae for a Mortgage Loan will be based on the price (expressed as a percentage) that is stated in the Commitment multiplied by the unpaid principal balance of the Mortgage Loan at the time of purchase, adjusted as described below.

If accrued or prepaid interest is due for the month in which Fannie Mae purchases the Mortgage Loan, Fannie Mae will adjust the purchase amount by adding any accrued interest, or deducting any prepaid interest, as necessary to reflect the Lender’s and Fannie Mae’s respective shares of such items, as follows:

- For MBS Mortgage Loans, accrued interest is due to the Lender from the Mortgage Loan Origination Date to, but not including, the Book-Entry Date of the MBS (if the Book-Entry Date occurs on the first day of the month, no accrued interest is due to the Lender).

- For Cash Mortgage Loans, if Fannie Mae purchases the Mortgage Loan in a month other than the month in which the Mortgage Loan Origination Date occurs, accrued interest is due to the Lender for the period from the Mortgage Loan Origination Date to, but not including, the date of Fannie Mae’s purchase.

- For Cash Mortgage Loans, if Fannie Mae purchases the Mortgage Loan during the month in which the Mortgage Loan Origination Date occurs and the Borrower has prepaid interest on the Mortgage Loan through the end of that month, prepaid interest is subtracted from the Lender’s purchase proceeds for the period from and including the date of Fannie Mae’s purchase to the end of month.

Section 603. MBS Funding and Delivery Methods (06/02/14)

On the Book-Entry Date, Fannie Mae will issue and deliver the MBS electronically through the Federal Reserve book-entry system pursuant to the Lender’s wiring instructions and using 1 of the 3 available settlement methods described below.

Section 603.01 Third Party MBS Investor Delivery Paths

A. Delivery versus Payment

If the Lender selects the “Delivery vs. Payment” option in C&D, Fannie Mae will deliver the MBS directly to the account of the Lender or its designee through the Federal Reserve book-entry system. The Lender or its designee will then deliver the MBS to the Third Party MBS Investor, also through the Federal Reserve book-entry system. The Federal Reserve simultaneously will credit the MBS Investor’s account with the MBS, debits the MBS Investor’s account for the purchase amount, and credits the purchase amount to the Lender’s account.

B. Delivery Direct to the Investor
If the Lender selects the “Delivery Direct to the Investor” option in C&D, Fannie Mae will deliver the MBS directly to the Third Party MBS Investor’s account pursuant to the Lender’s delivery instructions. Upon receipt of the MBS, the Third Party MBS Investor will wire payment to the Lender pursuant to terms agreed to by the Lender and the Third Party MBS Investor.

Section 603.02 Trades with Multifamily Trading Desk - Original Issue Settlement

If the transaction is a trade with the Multifamily Trading Desk, the Lender must select “CSTD” from the “Special Delivery Instructions” dropdown to trigger “Original Issue Settlement” funding. Fannie Mae will match the MBS to the trade and wire the funds directly to the Lender, and the MBS will be assigned directly to Fannie Mae on the Book-Entry Date.

Section 604. Disclosure for MBS Mortgage Loans (06/02/14)

MBS Investors rely on information in the disclosure when determining whether to purchase an MBS. Accordingly, it is very important that all information in the disclosure be complete and accurate. The standard disclosure Fannie Mae uses at MBS issuance includes the Multifamily MBS Base Prospectus and the Prospective Supplement.

Section 604.01 Multifamily MBS Base Prospectus

The Multifamily MBS Base Prospectus is the basic disclosure document that contains information of interest to Investors, including:

- a general description of Fannie Mae’s multifamily mortgage business;
- disclosure of general risk factors related to the MBS;
- the types of multifamily mortgage loans that Fannie Mae securitizes; and
- the types of properties that secure multifamily mortgage loans.

Fannie Mae’s Multifamily MBS Base Prospectus is updated from time to time; the current version is available at www.FannieMae.com.

Section 604.02 Prospectus Supplement

A Prospectus Supplement is prepared by Fannie Mae prior to the issuance of each MBS to supplement the general information in the Multifamily MBS Base Prospectus with information specific to the Mortgage Loan comprising the MBS Pool. The Prospectus Supplement has 2 parts:

- The Prospectus Supplement Narrative (standard) is a transaction-specific disclosure document that describes in more detail the terms and structure of the Mortgage Loan.
The Schedule of Pool and Loan Information consists of “Pool Statistics,” providing pool-level disclosure data, and the “Multifamily Schedule of Loan Information,” providing specific disclosure data for the Mortgage Loan and the Property or Properties securing the Mortgage Loan.

The Prospectus Supplement is posted on www.FannieMae.com/multifamily at least 2 Business Days prior to the Book-Entry Date of the MBS.

Section 604.03 Special Disclosure

Mortgage Loans with characteristics or terms that differ from the standard characteristics described in the Multifamily MBS Base Prospectus and the Prospectus Supplement may require transaction-specific information to be added to the standard disclosure documents through a process called “Special Disclosure.” See the Special Disclosure Guidance (Form 4098) for guidance on matters that may require Special Disclosure.

The Lender must disclose any Special Disclosure features to the MBS Investor prior to entering into the Rate Lock (see Required Practices in Part IVA, Section 302) as these features may affect the performance assumptions and risk factors associated with the MBS.

When the Lender marks a Mortgage Loan for Special Disclosure in C&D, Fannie Mae reviews the Loan Documents to determine whether Special Disclosure is required. In some cases, Fannie Mae may determine that Special Disclosure is not required and that the standard Prospectus Supplement Narrative and Schedule of Pool and Loan Information are sufficient. In other cases, Fannie Mae may determine that Special Disclosure is required, either through:

- a Special Disclosure Prospectus Supplement Narrative; or
- a footnote on the Schedule of Pool and Loan Information in the standard Prospectus Supplement Narrative.

Section 604.04 Lender Disclosure Obligations

The Lender must promptly review the Prospectus Supplement (and, for Special Disclosure, any Special Disclosure Prospectus Supplement Narrative or footnote to the Schedule of Pool and Loan Information) and must notify Fannie Mae before the Book-Entry Date of any inaccuracies. Fannie Mae reserves the right to require the Lender to certify to the completeness of any Prospectus Supplement that Fannie Mae issues for an MBS Pool. The Lender must comply with all applicable federal and state securities laws and with the rules and guidelines of the Securities Industry and Financial Markets Association, including the requirements for the delivery of disclosure documents in connection with the sale or redelivery of an MBS.
Section 605. Purchase Procedures for Cash Mortgage Loans
(06/02/14)

Section 605.01 Disbursement of Purchase Proceeds

After Fannie Mae has cleared a Cash Mortgage Loan for purchase, Fannie Mae will disburse funds in accordance with the timing requirements set forth in this Chapter and the payee codes submitted by the Lender in C&D, as described in Part IVA, Section 401. Fannie Mae assumes no responsibility or liability for fund disbursement other than to wire proceeds in accordance with the information submitted by the Lender in C&D.

Section 605.02 Purchase Advice

Concurrent with disbursement of the Mortgage Loan proceeds, Fannie Mae will issue a detailed electronic “purchase advice” to the Lender listing all components of the net disbursement including purchased principal and any accrued interest, prepaid interest, or returned fees. Fannie Mae will issue a separate purchase advice for each Mortgage Loan.

Section 606. ASAP (06/02/14)

For Mortgage Loans to be funded under 1 of the ASAP Options, the Lender must refer to the applicable ASAP Contract for any ASAP-specific delivery requirements.
# Chapter 7 – Defaults And Remedies

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Chapter 7 – Defaults And Remedies

Section 701. General (06/02/14)

If the Lender is unable to deliver a Mortgage Loan that satisfies the requirements of the Rate Lock, the Commitment, and the Guide, the Lender must promptly notify the Fannie Mae Representative in writing and explain the reasons for the non-Delivery. The Lender’s notice must include a copy of the Borrower Commitment. For Early Rate Lock (“ERL”) Mortgage Loans, the notice must also include all documentation collected to date for the Mortgage Loan Delivery Package and a copy of the executed ERL Agreement.

Section 702. Delivery Defaults (06/02/14)

The Lender will be in default under the Rate Lock, the Commitment, and this Guide if the Mortgage Loan Delivery fails to occur on or before the Delivery Deadline and such failure results in the inability of Fannie Mae to (i) for an MBS Mortgage Loan, settle the MBS by the Rate Lock Expiration Date, or (ii) for a Cash Mortgage Loan, purchase the Mortgage Loan by the earlier of the Rate Lock Expiration Date and the Commitment Expiration Date.

If the failed Delivery occurs in connection with a Multifamily Trading Desk trade (MBS or cash), then after the earlier of the Rate Lock Expiration Date and the Commitment Expiration Date but not sooner than the second Business Day following notice of default to the Lender, Fannie Mae will draft an amount equal to the Minimum Good Faith Deposit from the Lender’s account and retain it as liquidated damages in full satisfaction of the Lender’s obligations under the Rate Lock and the Commitment. Except as provided in Section 703 of this Chapter, the Lender will not be responsible for damages in excess of the Minimum Good Faith Deposit, which shall be Fannie Mae’s sole remedy. For Mortgage Loans with a Rate Lock Period longer than 180 days, Fannie Mae’s additional remedies, if any, for a failed Delivery will be determined by the Multifamily Trading Desk at the time of Rate Lock.

If the failed Delivery occurs in connection with a Lender-Arranged Sale, the Lender shall comply with the requirements of the Third Party MBS Investor.

The Lender shall indemnify, hold harmless, and defend Fannie Mae from and against all actions, suits, claims, proceedings, orders, damages, penalties, and costs arising from the Lender’s failure to comply with any Third Party MBS Investor requirements.

The Lender is obligated to the Investor for any breakage fees whether or not it collects the Good Faith Deposit from the Borrower.

Any failed Delivery may also be subject, in Fannie Mae’s sole discretion, to any or all remedies set forth in Section 705 of this Chapter.
Section 703. Failure to Pay Good Faith Deposit (06/02/14)

If Fannie Mae is unable to draft an amount equal to the Minimum Good Faith Deposit as provided under Section 702 of this Chapter and the Lender fails to deliver an amount equal to the Minimum Good Faith Deposit to Fannie Mae no later than the second Business Day following notice to the Lender:

- the Lender will be in default under the Lender Contract and this Guide;
- Fannie Mae will be entitled to exercise every right, power, and remedy available to it at law or in equity, including the rights and remedies available under Section 705 of this Chapter; and
- the Lender shall be liable to Fannie Mae for:
  - all costs of collecting the Minimum Good Faith Deposit, including reasonable legal fees; plus
  - interest on the Minimum Good Faith Deposit at the “Prime Rate” (as published in the Wall Street Journal) from the due date until payment in full; plus
  - any direct or consequential damages incurred by Fannie Mae in excess of the Minimum Good Faith Deposit.

Subject to any limitations in the Lender Contract, without limiting the foregoing, Fannie Mae may liquidate any or all of the Lender’s securities, money, and other property held by or for the benefit of by Fannie Mae and apply such amounts against the obligations the Lender owes Fannie Mae pursuant to this Chapter. In doing so, Fannie Mae shall have all the rights and remedies of a secured party under the Uniform Commercial Code (as in effect in the District of Columbia from time to time).

Section 704. Other Defaults (06/02/14)

The Lender will be in default under this Guide and the Lender Contract if:

- there is a Bankruptcy Event affecting the Lender or the Lender admits that it is unable, or does not intend, to perform any obligation with respect to the Rate Lock, the Commitment, the Third Party MBS Trading Agreement (if applicable), or its Multifamily Trading Desk trading account (if applicable), in which case the Rate Lock Expiration Date and Commitment Expiration Date shall be deemed to have occurred and Fannie Mae may draft an amount equal to the Minimum Good Faith Deposit pursuant to Section 702 of this Chapter;
- the Lender fails to perform any obligation under the Rate Lock or Commitment;
- the Lender fails to comply with the Required Practices, including a failure to obtain a Commitment within 1 Business Day after the Rate Lock is executed;
the Lender fails to make Delivery of the Mortgage Loan by the Delivery Deadline;
for ERL Mortgage Loans, the Lender fails to timely deliver Folder II of the Mortgage Loan Delivery Package, as required under Part IVB, Chapter 1;
the Lender fails to comply with any other requirement of Part IVA or Part IVB; or
the Lender defaults under an ASAP Contract.

Section 705. Remedies for Other Defaults (06/02/14)

Fannie Mae’s rights and remedies after a Lender default under Section 704 of this Chapter shall give rise to any or all of the following:

- all rights and remedies in the Lender Contract;
- all rights and remedies in Part II;
- any fees Fannie Mae may impose for such default from time to time;
- suspension or revocation of the Lender’s right to sell or service Mortgage Loans under this Guide and the Lender Contract, or to enter into transactions with the Multifamily Trading Desk;
- all or some portion of the Lender’s Mortgage Loans may be deemed Pre-Review Mortgage Loans prior to Rate Lock, Commitment, or Delivery;
- Fannie Mae may report the error against the Lender’s clean Delivery rate;
- for an MBS Mortgage Loan Fannie Mae may change the Book-Entry Date; and
- the Lender may be subject to limitations of the Lender’s discretion as granted in this Guide.
Part IVB – Mortgage Loan Commitment, Delivery, and Purchase Procedures for Special Product Features and Executions

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Chapter 1 – Early Rate Lock

Section 101. General (12/18/17)

Beginning December 18, 2017, the Early Rate Lock (“ERL”) option is no longer available.
Part IVB – Mortgage Loan Commitment, Delivery, and Purchase Procedures for Special Product Features and Executions

Chapter 2 – Streamlined Rate Lock

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Chapter 2 – Streamlined Rate Lock

Section 201. General (12/18/17)

The Lender may enter into a Rate Lock and obtain a Commitment prior to completing full underwriting of a Mortgage Loan by using the Streamlined Rate Lock option described in this Chapter. The Streamlined Rate Lock is available for both (i) MBS Mortgage Loans with either the Multifamily Trading Desk or a Third Party MBS Investor, or (ii) Cash Mortgage Loans with the Multifamily Trading Desk. The Lender must underwrite, originate, commit, and deliver Streamlined Rate Lock Mortgage Loans in accordance with the standards, timeframe, and requirements of this Guide, except as expressly modified by Fannie Mae or this Chapter.

Section 201.01. Eligible Mortgage Loans

A Mortgage Loan that is secured by a Property that meets the occupancy requirements set forth in Part IIIA is eligible to use the Streamlined Rate Lock option. The following Mortgage Loan types are not eligible to use the Streamlined Rate Lock option:

- Adjustable Rate Mortgage Loans (ARM Loans); and
- Structured ARM Loans.

The Streamlined Rate Lock option may be used for (i) Green Rewards Mortgage Loans, and (ii) Green Mortgage Loans secured by a Property with a Fannie Mae-recognized Green Building Certification after the Lender has:

- received a Property Condition Assessment with an HPB Module (or a separate HPB Report) which projects that the agreed-upon Energy- and Water-Efficiency Measures will achieve the reduction in annual energy or water consumption required to qualify as a Green Rewards Mortgage Loan by Part IIIB, Section 1103; or
- reviewed and approved any required Green Building Certification prior to Rate Lock.

If the Lender has not received (i) the Property Condition Assessment with an HPB Module (or a separate HPB Report) confirming that the Property will qualify as a Green Rewards Mortgage Loan, or (ii) any required Green Building Certification, the Streamlined Rate Lock option may still be used if the Lender:

- discloses to each Investor that the Lender intends to deliver the MBS Mortgage Loan as a “Green MBS”; and
- requests the Fannie Mae Deal Team to provide the Lender with an alternative quote for the Guaranty Fee Rate and Servicing Fee Rate to be included in the Gross Note Rate if, upon the completion of full underwriting, the Property fails to qualify as a Green Mortgage Loan.
Section 201.02. Pre-Review Mortgage Loans

For a Pre-Review Mortgage Loan, the Lender must obtain authorization from the Fannie Mae Deal Team prior to proceeding with a Streamlined Rate Lock.

Section 201.03. Commitment Terms

A. Rate Lock Period; Delivery Timing

- The Rate Lock Period for a Streamlined Rate Lock Mortgage Loan may not exceed 180 days.

- A Streamlined Rate Lock Mortgage Loan must be delivered to Fannie Mae within 30 days after the Mortgage Loan Origination Date.

B. Minimum Rate Lock Amount for Trades with the Multifamily Trading Desk; Dual Commitment Option

For Cash and MBS Trades with the Multifamily Trading Desk, the Lender must follow the procedures for entering into a Rate Lock set forth in Part IVA, Chapter 3, except that the Lender has the option to rate lock less than the fully anticipated amount of the Mortgage Loan, but not less than 75% of the anticipated Mortgage Loan amount.

If the Lender anticipates that it will be utilizing the Dual Commitment Option, the Lender must notify the Multifamily Trading Desk at the time of the original Rate Lock.

C. Commitment Modifications

The Rate Lock Expiration Date and Commitment Expiration Date may only be extended after the Lender has fully underwritten the Streamlined Rate Lock Mortgage Loan as described in Section 204 of this Chapter. For MBS Mortgage Loans or Cash Mortgage Loans with the Multifamily Trading Desk, any extension of the Streamlined Rate Lock must be approved by the Multifamily Trading Desk, and may be subject to additional fees. Any Mortgage Loan with an initial Rate Lock Period in excess of 180 days, or any Rate Lock extension that would cause the total Rate Lock Period to exceed 180 days, the Lender must also contact the Fannie Mae Deal Team for approval before seeking the extension (e.g., no extension is permitted for a Mortgage Loan with an initial Rate Lock Period in excess of 150 days without the approval of the Fannie Mae Deal Team).

The Lender may negotiate an extension of the Rate Lock Expiration Date with the Third Party MBS Investor, provided that the extension does not exceed more than 30 days beyond the original Rate Lock Expiration Date. Any approved extension request (a) may require adjustment to the locked interest rate, as determined by the Third Party MBS Investor; and (b) may require Lender to pay any fees charged by the Third Party MBS Investor.
Any approved modification of the Streamlined Rate Lock or Commitment must be done in accordance with Part IVA, Section 305.

Section 201.04. Basic Streamlined Rate Lock Mortgage Loan Requirements

A. General

For all Streamlined Rate Lock Mortgage Loans, the Lender must:

- comply with all applicable Required Practices set forth in Part IVA, Section 302;
- comply with the Preliminary Streamlined Mortgage Loan Underwriting requirements described in Section 202 of this Chapter; and
- complete full underwriting and update the underwriting documentation for the Streamlined Rate Lock Mortgage Loan no later than the earlier of (i) the Mortgage Loan Origination Date, or (ii) 90 days after the date on which the Lender enters into the Streamlined Rate Lock.

B. Good Faith Deposit

Prior to obtaining a Streamlined Rate Lock, the Lender must collect a Good Faith Deposit from the Borrower. The Lender may not spread the lien of the existing Security Instrument to secure the Good Faith Deposit in lieu of cash or a letter of credit.

C. Delivery Tolerance

Except as provided in Section 204.02 of this Section, the Delivered Mortgage Loan Amount of the Streamlined Rate Lock Mortgage Loan must be within the standard Delivery Tolerance as provided in Part IVA, Section 401.

D. Green Mortgage Loans

The Lender must inform the Investor and the Multifamily Trading Desk that:

- the Rate Lock is for a Green Mortgage Loan; and
- underwriting required to qualify the Property as a Green Mortgage Loan has not been completed, including:
  - for a Green Rewards Mortgage Loan, the Lender has not yet received a Property Condition Assessment with an HPB Module (or a separate HPB Report) listing Energy- and Water-Efficiency Measures that project the reduction in annual energy or water consumption required to qualify as a Green Rewards Mortgage Loan; or
□ for a Green Mortgage Loan secured by a Property with a Fannie Mae-recognized Green Building Certification, the Lender has not reviewed and approved the required Green Building Certification prior to Rate Lock.

The Fannie Mae Deal Team must provide the Lender with an alternative Guaranty Fee Rate and Servicing Fee Rate to be included in the Gross Note Rate if, upon the completion of full underwriting, the Property fails to qualify as a Green Mortgage Loan.

Section 202. Preliminary Underwriting Requirements (06/01/15)

All underwriting standards and requirements of this Guide are applicable to Streamlined Rate Lock Mortgage Loans, except for the timing and documentation differences described in this Section 202. Prior to obtaining a Streamlined Rate Lock, the Lender must:

(a) receive an executed Borrower Commitment pursuant to Part IVA, Section 302 in which the Borrower agrees to close the Streamlined Rate Lock Mortgage Loan and be liable for any costs, fees, or damages associated with the Borrower’s failure to originate the Mortgage Loan, as further described in the Streamlined Rate Lock Agreement;

(b) obtain sufficient preliminary information and documentation to obtain preliminary approval from the Lender’s Loan Committee for the Streamlined Rate Lock Mortgage Loan and the Streamlined Rate Lock (see Part IIIA, Section 103);

(c) receive funds from the Borrower to pay transaction costs and costs of third-party professional reports in accordance with the Lender’s requirements;

(d) collect the Minimum Good Faith Deposit pursuant to the terms of Part IVA, Section 304 (the Good Faith Deposit required by a Third Party MBS Investor may be in excess of the Minimum Good Faith Deposit required by Fannie Mae);

(e) complete the following underwriting related to the Borrower, the Key Principal, and the Principal:

1. identify the Borrower, the Key Principals, and the Principals;

2. perform an ACheck review for each Borrower, Key Principal, and Principal;

and

3. determine that each Borrower, Key Principal, and Principal is not (a) a “specially designated national and blocked person” on the Specially Designated Nationals List maintained by OFAC; or (b) included on the SCP List.

(f) advise the Borrower:
1. to review and request any modifications to the Fannie Mae standard form multifamily Loan Documents; and

2. that, if the Borrower enters into a Rate Lock of the Mortgage Loan with the Lender and Investor prior to the review and approval by the Lender of all Loan Document modifications requested by the Borrower, approval of any subsequent modifications shall be at the sole discretion of Fannie Mae and the Lender, and any refusal by the Lender shall not constitute a defense of the Borrower to the failure by the Borrower to close the Mortgage Loan in accordance with the Loan Commitment (in the amount of the Rate Lock Loan Amount); and

(g) enter into a Streamlined Rate Lock Agreement among the Borrower, the Key Principal and the Lender in which the Borrower and the Key Principal jointly and severally agree to pay to the Lender, on a full recourse basis, any damages associated with the Borrower’s failure to originate the Mortgage Loan, which damages to a Third Party MBS Investor may be in excess of the Minimum Good Faith Deposit required by Fannie Mae.

Section 203. Rate Lock and Full Underwriting (12/18/17)

The Lender may obtain a Streamlined Rate Lock by following the rate lock procedures detailed in Part IVA, Chapter 3, at such time as the Lender has:

(a) completed the preliminary due diligence described in Section 202 of this Chapter and the preliminary underwriting deemed necessary by the Lender; and

(b) obtained approval from the Fannie Mae Deal Team of all exceptions or modifications identified at the time of the Lender’s preliminary underwriting, including all Loan Document modifications.

The Lender must complete full underwriting of the Streamlined Rate Lock Mortgage Loan no later than the earlier of (i) the Mortgage Loan Origination Date, or (ii) 90 days after the date on which the Lender enters into the Streamlined Rate Lock. For Green Mortgage Loans, the Lender must review:

- the PCA Report with an HPB Module (or a separate HPB Report), and confirm that the Borrower has agreed to implement Energy- and Water Efficiency Measures that the HPB Module or HPB Report projects to achieve the reduction in annual energy or water consumption required to qualify as a Green Rewards Mortgage Loan; or

- the required Fannie Mae-recognized Green Building Certification prior to Rate Lock.

The Lender must update all underwriting documentation as of the Mortgage Loan Origination Date in accordance with the underwriting requirements of this Guide.
Section 204. The Lender’s Determination after Completion and Review of the Full Underwriting Package (12/18/17)

Section 204.01. Full Underwriting

After the Lender has completed full underwriting of the Streamlined Rate Lock Mortgage Loan, the Lender must make 1 of the determinations described in Section 204.02 of this Chapter.

A. Changes to Rate Lock Amount or Commitment Amount

Subject to the terms of Section 204.02 of this Chapter, no changes may be made to the Rate Lock Amount after obtaining a Streamlined Rate Lock or to the Commitment Amount after a Commitment has been confirmed. All changes to the preliminary Net Operating Income, the Property value, or any other items used to determine the Rate Lock Amount must be fully documented in the Folder II submission of the Mortgage Loan Delivery Package.

B. Mortgage Loan Delivery Package

The preliminary information and documentation described in Section 202 of this Chapter must be included in the Mortgage Loan Delivery Package described in Part IVA, Chapter 5 and must be in a form that will enable Fannie Mae to conduct a post-purchase file review of the information.

In addition, the following must be included in the Lender’s final Mortgage Loan Delivery Package Delivered pursuant to Part IVA, Chapter 5:

- a complete Transaction Approval Memo and underwriting spreadsheets with details on how the Rate Lock Amount for the Streamlined Rate Lock Mortgage Loan was calculated, including any required change to the Guaranty Fee Rate and Servicing Fee Rate included in the Streamlined Rate Lock for a non-qualifying Green Rewards Mortgage Loan, as described in Section 204.02 of this Chapter;
- the calculation of any changes to the Delivered Mortgage Loan Amount; and
- all required underwriting documentation used at the time of full underwriting.

Section 204.02. Lender Determinations after Full Underwriting

After completing the full underwriting and prior to submitting Folder II of the Mortgage Loan Delivery Package to Fannie Mae, the Lender must, based on the results of the full underwriting, determine if the Streamlined Rate Lock Mortgage Loan will be:

- delivered with no changes to the terms of the Streamlined Rate Lock or the Commitment;
- delivered with changes to the terms of the Streamlined Rate Lock or the Commitment; or
not delivered to Fannie Mae.

Further detail is provided below.

A. **No Change to the Streamlined Rate Lock, or an Increase or Decrease to the Delivered Mortgage Loan Amount within the Delivery Tolerance**

The Lender must make Delivery of an eligible Streamlined Rate Lock Mortgage Loan satisfying the terms and conditions of the Streamlined Rate Lock, the Commitment, and this Guide if, after the completion of full underwriting, the Lender determines that:

- no change is necessary to the Streamlined Rate Lock or the Commitment;
- a decrease to the Delivered Mortgage Loan Amount from the Commitment Amount within the Delivery Tolerance (see Part IVA, Section 401) must be made to conform the Mortgage Loan to the required Pricing and Underwriting Tier; or
- an increase to the Delivered Mortgage Loan Amount from the Commitment Amount within the Delivery Tolerance (see Part IVA, Section 401) can be made, provided that the Delivered Mortgage Loan Amount must be at the same Pricing and Underwriting at which the Mortgage Loan was underwritten.

Within 1 Business Day after determining that the Delivered Mortgage Loan Amount will be greater or less than the Commitment Amount but within the Delivery Tolerance, the Lender must submit a data change request in C&D, as described in Part IVA, Section 305, to update the fields that relate to the changed Commitment Amount.

B. **Changes to the terms of the Streamlined Rate Lock or the Commitment**

1. **Decrease in the Delivered Mortgage Loan Amount in Excess of the Delivery Tolerance up to 10% of the Commitment Amount.**

If after the completion of full underwriting, the Lender determines that the Delivered Mortgage Loan Amount will be less than 95% of the Commitment Amount but greater than 90% of the Commitment Amount, then:

- for Cash and MBS Trades with the Multifamily Trading Desk:
  - Fannie Mae shall accept delivery of the Mortgage Loan in such lesser amount; and
  - the Lender shall owe as liquidated damages, to be paid from the Good Faith Deposit, an amount equal to (i) the difference between 95% of the Commitment Amount and the Delivered Mortgage Loan Amount, multiplied by (ii) the applicable Good Faith Deposit percentage set forth in Part IVA, Section 304;

- for MBS Trades with a Third Party MBS Investor:
the Lender must confirm whether the Third Party MBS Investor will accept delivery of an MBS in a lower amount than that required to meet that Third Party MBS Investor’s delivery requirements (but which Third Party MBS Investor’s delivery requirements shall not be less than 90% of the Commitment Amount); and

send confirmation by the Third Party MBS Investor that the Third Party MBS Investor will accept delivery of the MBS in such lower amount to the Fannie Mae Multifamily Acquisitions Team.

Within 1 Business Day after the determining that the Delivered Mortgage Loan Amount will be less than the Commitment Amount and not within the Delivery Tolerance as permitted above, the Lender must submit a data change request in C&D as described in Part IVA, Section 305 to update the fields that relate to the changed Commitment Amount.

2. Increase in the Delivered Mortgage Loan Amount in Excess of the Delivery Tolerance is Justified (Dual Commitment Option).

For Cash and MBS Trades with the Multifamily Trading Desk, the Lender may utilize the Dual Commitment Option set forth in Section 205 of this Chapter only if, after the completion of full underwriting, the Lender determines that:

- the Streamlined Rate Lock Mortgage Loan qualifies for additional proceeds in excess of the Delivery Tolerance; and
- the Lender desires to increase the Commitment Amount of the Streamlined Rate Lock Mortgage Loan.

3. Change in the Streamlined Rate Lock for a Non-Qualifying Green Rewards Mortgage Loan.

In addition to any other changes required by this Section, if after determining that the Mortgage Loan will not (a) project the reduction in annual energy or water consumption required to qualify as a Green Rewards Mortgage Loan, or (b) receive the Fannie Mae-recognized Green Building Certification required to qualify as a Green Mortgage Loan, an adjustment to the Streamlined Rate Lock will be required. Within 1 Business Day after such determination, the Lender must:

- prior to originating the Mortgage Loan, (i) notify the Fannie Mae Deal Team, and (ii) make any necessary changes to the Mortgage Loan amount and Gross Note Rate in the Loan Documents; and
- prior to the Delivery Deadline, submit a data change request in C&D, as described in Part IVA, Section 305, to:
  - update the Gross Note Rate for the Mortgage Loan to include the alternative “non-Green” Guaranty Fee Rate and Servicing Fee Rate provided by the Fannie Mae Deal Team at the time of Rate Lock as a Green Mortgage Loan; and
prior to originating the Mortgage Loan, notify Fannie Mae and make any necessary changes to the Mortgage Loan amount and interest rate in the Loan Documents, and (ii) prior to the Delivery Deadline (7 Business Days prior to, but not including, the Book-Entry Date), submit a data change request in C&D, revising the interest rate and (if required) the loan amount to the non-Green Mortgage Loan quote.

C. Waiver to Accept Delivery

If, after the completion of final underwriting, the Lender determines that (i) the Lender cannot make Delivery of the Streamlined Rate Lock Mortgage Loan without a modification to the terms of the Streamlined Rate Lock and the Commitment, and (ii) the Lender still desires to make Delivery of the Streamlined Rate Lock Mortgage Loan with a modification to terms of the Streamlined Rate Lock and the Commitment, the Lender must submit a waiver request explaining the reasons for the proposed modifications to the Streamlined Rate Lock and the Commitment and the rationale for the Lender’s desire for Fannie Mae to accept Delivery of the Streamlined Rate Lock Mortgage Loan. If the waiver request is not approved by Fannie Mae and the Lender cannot otherwise make Delivery of the Streamlined Rate Lock Mortgage Loan without a modification to the terms of the Streamlined Rate Lock and the Commitment, the Lender will be subject to the provisions set forth in Part IVA, Chapter 7.

D. Non-Delivery of Streamlined Rate Lock Mortgage Loan

After the completion of full underwriting, the Lender may inform Fannie Mae that the Mortgage Loan will not be delivered. In such case, the Lender will be subject to the provisions set forth in Part IVA, Chapter 7.

Section 205. Dual Commitment Option (06/01/15)

Section 205.01. General

For trades with the Multifamily Trading Desk, the Dual Commitment Option is available to increase the Commitment Amount of the Streamlined Rate Lock Mortgage Loan if the Lender determines that the Property supports an increase to the Mortgage Loan Amount after completion of full underwriting. If the Lender anticipates using the Dual Commitment Option, the Lender must notify the Multifamily Trading Desk at the time of the original Rate Lock. If the Dual Commitment Option is used, the Delivery Tolerance may not be used to increase the Mortgage Loan amount after the completion of full underwriting of the Streamlined Rate Lock Mortgage Loan.
Section 205.02. Obtaining Additional Proceeds

If the Lender uses the Dual Commitment Option, the Lender must contact the Multifamily Trading Desk to request a quote and indicate:

- that the quote is associated with the original Rate Lock for a Streamlined Rate Lock Mortgage Loan; and
- whether the original Rate Lock was for an MBS Mortgage Loan or a Cash Mortgage Loan.

The percentage of the Unpaid Principal Balance applicable to risk sharing may not be changed from the original Rate Lock. In addition, none of the following terms of the original Rate Lock may be changed in C&D:

- Mortgage Loan term;
- Amortization term;
- Prepayment terms;
- Pricing method (the pricing structure as set forth in the Pricing Memo);
- Amortization type (interest payment method);
- Interest accrual method;
- Pricing and Underwriting Tier;
- Commitment date;
- Rate Lock period;
- Commitment Expiration Date; and
- Rate Lock Expiration Date.

No increase to the Good Faith Deposit is required under the Dual Commitment Option. If approved by Fannie Mae, the Multifamily Trading Desk will lock the rate with the Lender pursuant to the provisions of Part IVA, Section 303. Within 1 Business Day after obtaining the Rate Lock from the Multifamily Trading Desk, the Lender must make changes to the Commitment in C&D as follows:

- For an MBS Mortgage Loan, submit a data change request in C&D as described in Part IVA, Section 305 to update the fields that relate to the changed Commitment Amount. The revised Commitment for such MBS Mortgage Loan replaces the original Commitment.
- For a Cash Mortgage Loan, submit an “Additional Rate Lock” request in C&D (refer to the C&D User Manual). The revised Commitment updates the original Commitment.

The revised Commitment Amount will be the sum of (i) the original Commitment Amount, plus (ii) the Rate Lock Amount for the additional loan proceeds. The stated interest rate in the
revised Commitment will be the weighted average of the interest rate in the original Rate Lock and the interest rate in the Rate Lock for the additional loan proceeds.
Chapter 3 – Structured Transactions

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Chapter 3 – Structured Transactions

Section 301. General (09/05/17)

This Chapter describes the registration, commitment, delivery, and purchase procedures for Mortgage Loans originated in a Structured Transaction and underwritten pursuant to the terms of Part IIIC, Chapter 11.

Section 301.01. Transaction Registration

A. Two System Registration

Using the Lender’s Negotiated Seller Number, the Lender must register each Structured Transaction in 2 systems:

- DUS Gateway, as further described in Part IIIA, Section 203, and which is also used to submit individual deal activity and to document waivers; and

- MSFMS, used for collateral and security delivery, generation of disclosure documents, and ongoing management of the Structured Transaction.

All Structured Transactions are managed in MSFMS, which provides users with a centralized view of the transaction. MSFMS is used to (i) register new transactions; (ii) create and submit collateral and participant-related information; and (iii) for MBS and DMBS, create and submit security information. The Lender should contact the Multifamily Acquisitions Structured Team to obtain access to MSFMS as well as for any training needs.

B. Registration Timing

The Lender must register the Structured Transaction in MSFMS after the transaction has been registered in DUS Gateway, and prior to the remittance of any fees to Fannie Mae. The registration of the Structured Transaction in MSFMS must occur no later than 15 Business Days prior to purchase by Fannie Mae of the Mortgage Loan. The MSFMS Deal ID will be assigned upon registration in MSFMS.

Section 301.02. Structured Transaction Approval

The terms and conditions of Fannie Mae’s approval of a Structured Transaction will be set forth in 1 or more documents provided by Fannie Mae to the Lender (collectively these documents, including any additional approvals issued for subsequent collateral activities, such as new loans and property additions, and any modifications to such approvals, are the “Structured Transaction Approval”).

The Structured Transaction Approval may include expiration dates by which certain identified actions must occur (such as Rate Lock, delivery, or purchase). The Lender must contact...
the Fannie Mae Deal Team to modify or extend any expiration date set forth in the Structured Transaction Approval.

Section 302. Pricing and Fees (06/02/14)

Section 302.01. Pricing

The Structured Transaction Approval sets forth the pricing for the Structured Transaction.

Section 302.02. Fees

Fannie Mae may charge fees for the initial closing of the Structured Transaction and the Lender’s origination of the initial Mortgage Loans, as well as for subsequent collateral activity permitted under the Structured Transaction Loan Documents (e.g., additional origination fees, addition fees, release fees, due diligence fees, etc.). Such fees will be specified in the Structured Transaction Approval or the MATS Addendum. The due date for such fees will be determined by Fannie Mae. All Structured Transaction fees will be drafted from the Lender by Fannie Mae or as otherwise instructed by Fannie Mae.

Section 303. Loan Documents (06/02/14)

All Structured Transactions must be evidenced by the Structured Transaction Loan Documents prepared by Fannie Mae outside counsel. The Fannie Mae Deal Team will provide the Lender with the name and contact information for both the Fannie Mae in-house legal counsel and the Fannie Mae outside counsel who have been assigned to work on the particular transaction.

Section 304. Rate Lock (09/05/17)

The Lender must obtain a Rate Lock for the Structured Transaction in accordance with the provisions of Part IVA, Section 303 and the Structured Transaction Approval. For a Structured Transaction, all fields associated with the Rate Lock must be completed by the Lender on the “pool” and the “loan” pages in MSFMS by 3:30 p.m. Eastern Time on the Business Day after the date the Rate Lock is executed. For a DMBS, the process for obtaining a Rate Lock is the same as for an MBS Mortgage Loan, as set forth in Part IVA, Section 303, except as otherwise described in this Chapter or in the Structured Transaction Approval.

Section 305. Commitment/Approval Processes (06/02/14)

For each Structured Transaction, the Fannie Mae Deal Team must enter the transaction terms, collateral group, and fee group information from the Structured Transaction Approval into MSFMS.
Section 305.01.  MBS and DMBS Mortgage Loans

Because MBS Mortgage Loans and DMBS Mortgage Loans made in connection with Structured Transactions are managed in MSFMS rather than C&D, the “Commitment” process is different for Structured Transactions. The Lender may generate a “Structured Facility Commitment Letter” within the “Reports” section of MSFMS to provide the Lender with confirmation that the Structured Transaction in MSFMS meets the terms of the transaction as documented in MSFMS. The “Structured Facility Commitment Letter” is available when the status of the MBS Pool or DMBS Pool in MSFMS is reflected as “submitted,” “closed,” “closed with differences,” or “active.”

Section 305.02.  Cash Mortgage Loans

For Cash Mortgage Loans in a Structured Transaction, the Lender must obtain a Commitment through C&D by following the procedures set forth in Part IVA, Chapter 3 with the following exceptions.

- Commitment Page – The Lender must select “Structured” as the “Delivery Channel Type” and enter the MSFMS Deal ID in the “Structured Facility Management Deal ID” field to associate the Commitment with the Structured Transaction in MSFMS.
- Collateral Page – When completing the Property field, the Lender must enter “3900 Wisconsin Avenue, NW” as the address and “Washington, DC 20016” as the city, state, and zip instead of entering the actual Property data, which instead will be entered into MSFMS.
- Participants Page – The Lender must enter at least 1 Borrower record. The complete data for all deal participants will be entered separately into MSFMS.

Section 306.  Delivery Procedures (09/05/17)

In order to ensure that a Mortgage Loan is timely purchased by Fannie Mae as required in this Chapter, the Lender must meet the minimum timing requirements at all stages of the delivery process, including submission of all required data via MSFMS and C&D (as applicable), and delivery of all required documentation. If the Lender does not satisfy all Delivery requirements, the Lender may be subject to the provisions of Part IVA, Chapter 7.
For Structured Transactions, Delivery requires completion of the following 5 steps:

**Step 1**: submission of deal participant and collateral data via MSFMS;

**Step 2**: electronic delivery of Property and underwriting related documents (the Delivery Documents as required under Folder II, as described in the Multifamily Mortgage Loan Package Table of Contents) via MultiDocExpress;

**Step 3**: for Structured ARM Loans and DMBS Mortgage Loans, submission of Interest Rate Hedge data;

**Step 4**: certification of executed Structured Transaction Loan Documents; and

**Step 5**: submission of pool and loan information via MSFMS for MBS Mortgage Loans and DMBS Mortgage Loans, or via C&D for Cash Mortgage Loans.

**Section 306.01.  Deal Participant and Collateral Data Delivery (Step 1)**

**A. Submission of Data**

The Lender is responsible for entering and submitting the deal participant data and the collateral data (property and underwriting data) into MSFMS for all Mortgage Loans delivered in connection with a Structured Transaction. For MBS Mortgage Loans and DMBS Mortgage Loans, the deal participant and collateral data is submitted separately from, and in advance of, the submission of pool and Mortgage Loan data in MSFMS (Step 5 above).

The Lender must complete a deal participant page in MSFMS, and submit all required data, for each Borrower, Key Principal, and “sponsor” (the sponsor may be the same as the Key Principal), and any Principals. Upon submission of such data, MSFMS will automatically run the ACheck process, which is in addition to, and not a replacement for, the ACheck process required to be completed by the Lender pursuant to Part IIIA, Section 408.

The Lender must complete a “collateral” page in MSFMS, and submit all required data, for each Property, including the “eRents” data submission. Following submission of such data, MSFMS will reflect the collateral status as “submitted.” Structured Transactions are also known as Multiple Asset Transactions (“MATS”) in some systems and documents.

**B. Timing**

For all Mortgage Loans in a Structured Transaction, the Lender must submit the deal participant and collateral data in MSFMS no later than 5:00 p.m. Eastern Time 10 Business Days prior to (and not including):

- the purchase date for Cash Mortgage Loans; and
- the Book-Entry Date for MBS Mortgage Loans and DMBS Mortgage Loans.
Section 306.02. Underwriting Documents (Step 2)

Contemporaneously with submission of the deal participant and collateral data in MSFMS, as required in Section 306.01 of this Chapter, the Lender must also submit Folder II via MultiDocExpress as required in Part IVA, Section 501. The Lender must create the MultiDocExpress folder for the Structured Transaction by utilizing the MSFMS Deal ID (adding zeros, if necessary, before the MSFMS Deal ID to create the required 6-digit number).

After the Lender has submitted deal participant and collateral data in MSFMS and delivered the Folder II documents via MultiDocExpress, Fannie Mae will review the submission. If the submission is acceptable, the Multifamily Certification and Custody Team will change the status of the Property on the Collateral Page in MSFMS to “accepted pending delivery.”

Section 306.03. Interest Rate Hedge (Step 3)

A. Timing of Hedge Acquisition

An Interest Rate Hedge is required for each Structured ARM Loan and DMBS Mortgage Loan. The Borrower must enter into an Interest Rate Hedge Agreement with a Fannie Mae-approved provider meeting the requirements of Part IIIC, Chapter 4, in time to ensure entry of the hedge data (as described in Section 306.03(B) of this Chapter) into MSFMS no later than:

- For Structured ARM Loans that are MBS Mortgage Loans: 7 Business Days prior to (and not including) the Book-Entry Date of the MBS;
- For Structured ARM Loans that are Cash Mortgage Loans: 5 Business Days prior to (and not including) Fannie Mae’s purchase of the Mortgage Loan; or
- For DMBS Mortgage Loans: 7 Business Days prior to (and not including) the Book-Entry Date of the initial DMBS.

B. Hedge Data

Prior to submission of the pool and Mortgage Loan data in MSFMS (Step 5 above), the Lender must enter and submit the Interest Rate Hedge data in MSFMS via the “hedge” tab. To do so, the Lender must select the “hedge” tab, create a new hedge, and enter the appropriate data. After the required data has been entered, the Lender must submit the hedge data to Fannie Mae for review. Fannie Mae will compare the submitted data to the Interest Rate Hedge Agreement. If any discrepancies are noted, Fannie Mae will unlock the “hedge” tab and notify the Lender of corrections that must be made. If no discrepancies are noted, Fannie Mae will change the status from “submitted” to “active” to activate the hedge in MSFMS.
Section 306.04. Certification of Structured Transaction Loan Documents (Step 4)

A. Credit Facilities

Following the Lender’s origination of a Mortgage Loan in connection with a Credit Facility, the Lender must deliver all Loan Documents to Fannie Mae’s designated outside counsel for certification, at least 5 Business Days prior to (and not including) the applicable certification date set forth below:

- for MBS Mortgage Loans and DMBS Mortgage Loans, the documents must be certified at least 7 Business Days prior to (and not including) the Book-Entry Date; and
- for Cash Mortgage Loans, the documents must be certified at least 5 Business Days prior to (and not including) the date of purchase by Fannie Mae.

Fannie Mae’s designated outside counsel will deliver the final, certified Credit Facility Loan Documents to Fannie Mae. The Lender and the Lender’s counsel must work with Fannie Mae’s outside counsel to ensure that all Credit Facility Loan Documents are complete and properly executed in advance of delivery to Fannie Mae.

B. Bulk Deliveries

Following the Lender’s origination of a Mortgage Loan in connection with a Bulk Delivery, the Lender must deliver all Loan Documents to the Multifamily Certification and Custody Team for certification, as specified in Part IVA, Section 501, at least 5 Business Days prior to (and not including) the applicable certification date set forth below:

- for MBS Mortgage Loans and DMBS Mortgage Loans, the documents must be certified at least 7 Business Days prior to (and not including) the Book-Entry Date; and
- for Cash Mortgage Loans, the documents must be certified at least 5 Business Days prior to (and not including) the date of purchase by Fannie Mae.

Section 306.05. Pool and Mortgage Loan Data Submission (Step 5)

After completing Steps 1 through 4 as described above, the Multifamily Acquisitions Structured Team will change the collateral status to “active” in MSFMS and the Lender may then complete Step 5, the submission of pool and Mortgage Loan data.
A. MBS Mortgage Loans and/or DMBS Mortgage Loans

1. Data Submission

   For each MBS Mortgage Loan or DMBS Mortgage Loan in a Structured Transaction, the Lender must create an MBS Pool or a DMBS Pool in MSFMS no later than 3:30 p.m. Eastern Time on the Business Day after the date the Rate Lock is executed. Once the MBS Pool or DMBS Pool is created, the Lender will receive in MSFMS the Fannie Mae Pool Number and the CUSIP number that uniquely identifies the MBS Pool or DMBS Pool for book-entry purposes.

   After the MBS Pool or DMBS Pool is created, the Lender must complete the necessary fields on the “pool” and the “loan” pages in MSFMS, including the appropriate Plan Number in the case of an ARM Loan. Prior to submitting MBS Pool or DMBS Pool data, the Lender must address all MSFMS system business rules by “validating” the data which will identify any “errors” or discrepancies between the entered data and the allowable terms. The Lender must submit the MBS Pool or DMBS Pool data necessary for securitization, via MSFMS, no later than 5:00 p.m. Eastern Time at least 5 Business Days prior to (and not including) the Book-Entry Date.

   For MBS Mortgage Loans and DMBS Mortgage Loans, the Lender must comply with the provisions of Part IVA, Section 401, regarding the first scheduled monthly payment date of the Mortgage Loan.

2. Correcting Data Submissions

   If the Lender believes that a discrepancy or “error” message generated by MSFMS is related to a waiver that Fannie Mae has approved or if the Lender believes the data to be correct, instead of changing the system status to “submitted,” the Lender must change the system status to “submit for review,” and provide an explanation of the issue. The Multifamily Acquisitions Structured Team will review the submission, and either override the “error,” or return the MBS or DMBS data submission to the Lender for correction. If returned to the Lender for correction, the Lender must revise the MBS or DMBS data accordingly and then change the system status to “submitted.”

   After the status of the MBS or DMBS data in MSFMS is “submitted,” if the Lender has made an error or otherwise believes that the submitted data is incorrect, the Lender must submit a request to revise the data in MSFMS via e-mail to the Multifamily Acquisitions Structured Team with the following subject line: “Deal Name – MSFMS Data Change Request.”

3. Wiring and Delivery Instructions; Purchase

   On the Book-Entry Date, Fannie Mae will issue and deliver the MBS or DMBS electronically through the Federal Reserve book-entry system in accordance with the
wiring instructions provided by the Lender in MSFMS. The wiring instructions cannot be changed in MSFMS after the MBS or DMBS has been submitted for securitization, so the Lender’s MSFMS submission must include complete and accurate wiring instructions for the Security as well as the correct amount to be wired.

Fannie Mae’s purchase of MBS Mortgage Loans and DMBS Mortgage Loans originated in connection with Structured Transactions will be governed by the provisions of Part IVA, Chapter 6, except that:

- the funding path and timing for MBS Mortgage Loans are as described in Section 306.05(A)(4) of this Chapter; and
- the funding path and timing for DMBS Mortgage Loans are as described in Part IVB, Chapter 4.

4. **Funding Path**

The Lender may submit wiring instructions in MSFMS for delivery of the MBS via the Federal Reserve book-entry system either to the Lender’s own account or to the account of the Lender’s designee. In a separate transaction (not via MSFMS), the Lender or the Lender’s designee will then deliver the MBS to the MBS Investor, also via the Federal Reserve book-entry system. The Federal Reserve will simultaneously credit the MBS Investor’s account with the MBS, debit the MBS Investor’s account for cash, and credit the MBS proceeds to the Lender.

The Lender may also opt to submit wiring instructions for delivery of the MBS directly to the MBS Investor’s account. In such event, upon receipt of the MBS, the MBS Investor will wire payment to the Lender in accordance with previously agreed terms.

If the transaction is a trade with the Multifamily Trading Desk, Fannie Mae will match the MBS to the trade and will wire the funds directly to the Lender in accordance with previously agreed terms. The MBS will be assigned directly to Fannie Mae on the Book-Entry Date. To arrange for this type of settlement, the Lender must select “CSTD” from the “Special Delivery Instructions” dropdown on the “MBS Pool” page in MSFMS at the time the MBS Pool is delivered.

**B. Cash Mortgage Loans**

1. **Data Submission**

For Cash Mortgage Loans originated in connection with a Structured Transaction, the Lender must submit the required data in C&D no later than 10:30 a.m. Eastern Time at least 5 Business Days prior to (and not including) the purchase date in accordance with the requirements of Part IVA, Chapter 4, except that:

- Collateral Page: The only data required for a Cash Mortgage Loan is the property data entered at the time of commitment. No additional data needs
to be entered on this page at the time of submission of the Mortgage Loan for purchase by Fannie Mae. Instead, the complete property and underwriting data, including the “eRents” submission, is entered into MSFMS.

- Hedge Page: Instead of completing the “hedge” tab in C&D, the Lender must enter hedge data into MSFMS as required in Section 306.03 of this Chapter.

2. Payee Codes; Purchase

In accordance with the requirements set forth in Part IVA, Section 401 for Cash Mortgage Loans, the Lender must include the Fannie Mae “payee” code associated with the specific Lender account at the receiving institution.

Except as otherwise indicated in this Chapter, Cash Mortgage Loans originated in connection with a Structured Transaction are purchased by Fannie Mae in accordance with the provisions of Part IVA, Chapter 6.

The MSFMS Deal ID, which is entered into both C&D and MSFMS by the Lender, will link the Structured Transaction in the 2 Fannie Mae systems.

Section 307. MBS Disclosure (09/05/17)

MBS issued in connection with Structured Transactions require Additional Disclosure using the standard disclosure documents, Additional Disclosure documents, and disclosure generation procedures detailed in Part IVA, Section 604, with the following modifications.

- MSFMS automatically flags Additional Disclosure for all Structured Transactions, so the Lender does not need to specifically indicate that Additional Disclosure is required.

- After all MBS data has been submitted in MSFMS such that the funding state of the Structured Transaction is either “submitted” or “closed,” the Lender may access the Schedule of Loan Information by selecting “Schedule of Loan Information – Disclosure” from the “Reports” tab menu on MSFMS.

- The Fannie Mae Structured Transactions Legal Disclosure Team will generate the Schedule of Loan Information from MSFMS and send it via e-mail to the Lender for review in advance of the Book-Entry Date.

- The Lender must review the Schedule of Loan Information and either confirm that the information is correct, or provide a revised Schedule of Loan Information with the updated information to the Fannie Mae Structured Transactions Legal Disclosure Team, with a copy to the Multifamily Acquisitions Structured Team and the Multifamily Structured Asset Management Team.
The Lender’s e-mail response confirming or correcting the Schedule of Loan Information must be received by Fannie Mae no later than 12:00 p.m. Eastern Time 2 Business Days prior to (and not including) the Book-Entry Date.

Section 308. DMBS Disclosure (09/05/17)

DMBS issued in connection with Structured Transactions do not require Additional Disclosure. The standard disclosure for such DMBS will use the standard disclosure generation procedures detailed in Part IVA, Section 604, with the following modifications:

- After all DMBS data has been submitted in MSFMS for securitization such that the funding state of the Structured Transaction is either “submitted” or “closed,” the Lender may access the Schedule of Loan Information by selecting “Schedule of Loan Information – Disclosure” from the “Reports” tab menu on MSFMS.
- The Fannie Mae Multifamily Acquisitions Structured Team will generate the Schedule of Loan Information from MSFMS and send it via e-mail to the Lender for review in advance of the Book-Entry Date.
- The Lender must review the Schedule of Loan Information and either confirm that the information is correct, or provide a revised Schedule of Loan Information with the updated information to the Fannie Mae Multifamily Acquisitions Structured Team.
- The Lender’s e-mail response confirming or correcting the Schedule of Loan Information must be received by Fannie Mae no later than 3:00 p.m. Eastern Time 3 Business Days prior to (and not including) the Book-Entry Date.

Section 309. Features (09/05/17)

Section 309.01. Collateral Activity

If permitted by the terms of the Structured Transaction Approval and the related Structured Transaction Loan Documents, the collateral activity below may be available for a Structured Transaction. Timing requirements for any collateral activity will be set forth in the Structured Transaction Approval.

A collateral addition, release, and substitution will occur under the initial MSFMS Deal ID and the Lender does not need to create a new transaction in MSFMS.

A. Collateral Addition – Add New Collateral to an Existing Structured Transaction

To add a Property as collateral in a Structured Transaction, the Lender must submit the transaction in DUS Gateway, as set forth in Part V, Section 421. Upon receipt of the Structured Transaction Approval from Fannie Mae approving the addition, the Delivery process for a
collateral addition is the same as the Delivery process as described in Section 306 of this Chapter for new Structured Transactions. A collateral addition/origination fee may be due under the Structured Transaction Loan Documents, the Structured Transaction Approval, or the MATS Addendum.

B. Collateral Release – Request a Release of Collateral from an Existing Structured Transaction

To release a Property from a Structured Transaction, the Lender must submit a request to the Multifamily Structured Asset Management Team pursuant to Part V, Section 421. The Multifamily Structured Asset Management Team will determine whether the conditions to the release set forth in the Structured Transaction Loan Documents have been satisfied. Upon receipt of the Structured Transaction Approval from Fannie Mae approving the release and the closing of the release, the Lender must change the collateral status in MSFMS to “release requested.” A release fee may be due under the Structured Transaction Loan Documents, the Structured Transaction Approval, or the MATS Addendum. The Lender must remit any applicable release fee within 1 Business Day of closing and releasing the collateral. In the event the Lender needs to change the release date, the Lender must notify the Multifamily Structured Asset Management Team as well as the Multifamily Acquisitions Structured Team.

C. Collateral Substitution – Substitute Collateral into an Existing Structured Transaction

A substitution is a combination of a collateral release and a collateral addition. The request for substitution of a Property must be submitted to the Multifamily Structured Asset Management Team as set forth in Part V, Section 421. The Lender must follow the process for delivering the collateral data described in Section 309.01(A) of this Chapter for collateral additions and the provisions of Section 309.01(B) of this Chapter for the release of existing collateral within MSFMS. In some cases (if provided for in the Structured Transaction Loan Documents), a delayed substitution will be permitted by Fannie Mae whereby, upon the release of collateral, the Lender must post cash, a Letter of Credit or other permitted replacement collateral as set forth in the Structured Transaction Loan Documents until acceptable new collateral is substituted. In any event, the new collateral must be added within 90 days or some other agreed upon timeframe as set forth in the Structured Transaction Approval or the Structured Transaction Loan Documents. A substitution fee (or an addition fee and release fee) may be due in accordance with the Structured Transaction Loan Documents, the Structured Transaction Approval, and/or the MATS Addendum.

Section 309.02. Conversion to Fixed Rate

Certain ARM Loans and DMBS Mortgage Loans may be converted to Fixed Rate Mortgage Loans subject to the provisions of the Structured Transaction Loan Documents, the Structured Transaction Approval, and, for Structured ARM Loans, Part IIC, Section 611, and for DMBS Mortgage Loans, Part IIC, Section 907.
Section 309.03. Borrow-Up Approval and Funding

If permitted under the Structured Transactions Approval and the Structured Transaction Loan Documents, the Borrower may request additional loan proceeds without the addition of additional collateral. In such case, the Lender must submit the transaction in DUS Gateway, as set forth in Part V, Section 421. The funding of any additional Mortgage Loan proceeds will follow the process set forth in this Chapter for new Mortgage Loans. An origination fee may be due under the Structured Transaction Loan Documents, the Structured Transaction Approval, or the MATS Addendum.

Section 309.04. Additional Activities

Upon approval of those decisions and actions referenced in Part V, Section 421, the Lender must complete the following asset management actions, as applicable, in order to complete or update the transaction:

- For Delivery of new or modified Structured Transaction Loan Documents, the requirements of Section 306 of this Chapter apply;
- For transfers or assumptions, the Lender must submit new deal participant data in accordance with Section 306.01 of this Chapter;
- For renewal, replacement or modification of an Interest Rate Hedge, the Lender must enter the new data into MSFMS in accordance with Section 306 of this Chapter, and the terms and conditions for any such renewal, replacement or modification will be set forth in the Structured Transaction Approval; and
- For any other activities relating to a Structured Transaction, the Lender must follow the terms and conditions set forth in the Structured Transaction Approval, and may contact the Multifamily Acquisitions Structured Team for assistance.
Chapter 4 – RESERVED (12/04/18)
Part V – Servicing And Asset Management

Chapter 1 – General Servicing Requirements, and Servicing for Loan Documents and Specialty Products

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Chapter 1 – General Servicing Requirements, Loan Document Servicing, and Servicing for Specialty Products

Section 101. Servicing – General (12/21/15)

The Servicer must service Mortgage Loans:

- with regard to Securitized Mortgage Loans, on behalf of Fannie Mae, in Fannie Mae’s corporate capacity and in Fannie Mae’s capacity as Trustee, for the benefit of and in the best interest of the Investor in the Security;
- with regard to Credit Enhancement Mortgage Loans, on behalf of Fannie Mae as the issuer of the Credit Enhancement Instrument; and
- with regard to Cash Mortgage Loans, on behalf of Fannie Mae, in Fannie Mae’s corporate capacity.

The Servicer's servicing obligations continue until terminated by the terms of the Lender Contract, the Guide, and the Loan Documents.

The Servicer must always act diligently to protect Fannie Mae's investment interests in the Mortgage Loans. The Servicer is expected to exercise prudent business judgment in all of its servicing and asset management activities, including those relating to matters for which Fannie Mae has not established specific requirements or standards. While this Part V delegates significant decision-making authority and responsibility to the Servicer, consultation with the Servicer’s Fannie Mae Representative is encouraged whenever matters arise that could materially affect Fannie Mae's investment interests. All requirements of this Part V are also applicable to any Sub-Servicer of the Mortgage Loan.

Section 102. Servicing Standard (12/21/15)

The Servicer must service the Mortgage Loan in accordance with and, in the event of any conflict, in the following order of priority:

- the applicable Loan Documents;
- the Lender Contract;
- the Guide; and
- commercially prudent servicing practices and sound business judgment as would be exercised by prudent institutional mortgage lenders and servicers servicing mortgage loans comparable to the Mortgage Loans in the jurisdictions where the Property is located.
Section 103. Servicing Files (12/21/15)

The Servicer must maintain a separate Servicing File for each Mortgage Loan. The Servicing File may be maintained in paper or electronic imaged form so long as all requirements for record retention provided in Part II, Chapter 5 are met. The Servicing File for each Mortgage Loan must include copies of any document relevant to the Mortgage Loan as provided in Servicing File Content Requirements (Form 4800).

The Servicer must carefully document the actions it takes with respect to each Mortgage Loan in the Servicing File. The Servicing Files will be examined as part of Fannie Mae’s periodic assessment of the Servicer.

Section 104. Loan Document Servicing (05/21/18)

For each Mortgage Loan that it services, the Servicer is responsible for monitoring the Borrower’s compliance with the terms and conditions of all Loan Documents, and for taking such actions as are appropriate to facilitate the Borrower’s compliance or address any instance of noncompliance.

In the event of any conflict among the requirements of the Lender Contract, the Guide, or the provisions of any Loan Document, the provisions of the Loan Document shall control.

Section 105. Uniform Commercial Code Financing Statements (05/21/18)

Section 105.01. Documentation and Filing Requirements

The Servicer must:

- retain in the Servicing File a file-stamped copy of all applicable UCC financing statements, continuations, renewals, and assignments (UCC-1s and UCC-3s) filed in connection with the Personal Property securing the Mortgage Loan;
- preserve, on a continuous basis, Fannie Mae's first Lien security interest in the Personal Property by ensuring that all necessary UCC financing statement renewal or continuation statements are filed on a timely basis (i.e., before the date on which any outstanding filing lapses, or by any earlier deadline for filing that may be applicable in the particular jurisdiction); and
- maintain an effective "tickler" system for tracking the UCC financing statement renewal or continuation filing deadlines applicable to all of the Mortgage Loans it services for Fannie Mae.
The Servicer is liable for any losses incurred by Fannie Mae due to the Servicer's failure to effect a timely renewal or continuation of a UCC financing statement.

Section 105.02. UCC Renewals or Continuations and Amendments and Terminations

The Servicer is hereby authorized and required to file in all appropriate jurisdictions all required UCC renewal or continuation financing statements on Fannie Mae's behalf as servicer of the Mortgage Loan. The Servicer is also authorized and required to file amendments to the UCC financing statements required to correct any scrivener’s error. Unless specific authority is granted by Fannie Mae to serve as Fannie Mae’s attorney-in-fact pursuant to a Limited Power of Attorney (as described in Part V, Section 403), the Servicer is not authorized to sign or file any amendment to a UCC financing statement (other than an amendment to correct a scrivener’s error) or termination of any UCC financing statement.

Section 106. Administrative Duties Relating to Letters of Credit (05/21/18)

Section 106.01. Retention in Servicing File

The Servicer must retain a copy of the executed Letter of Credit, and the associated Achievement Agreement or other Collateral Agreement in its Servicing File. Fannie Mae will hold the original Letter of Credit and any amendments thereto.

Section 106.02. Submission of Certification

The Servicer must submit a Letter of Credit Authorization and Certification Form (Form 4664) with any new or replacement Letter of Credit, and must otherwise comply with the provisions of Part IIIA, Section 207.

Section 106.03. Forwarding New, Replacement or Amended Letters of Credit

Any new, replacement, or amended Letter of Credit sent to the Servicer rather than to Fannie Mae must be forwarded to Fannie Mae immediately.

Section 106.04. Verification of Issuer Rating

While the Letter of Credit is outstanding, the Servicer must monitor the rating of the Letter of Credit issuer as required in Part IIIA, Section 207, and notify Multifamily Business Operations whenever the issuer ceases to meet the required rating, regardless of whether the Achievement
Agreement or other Collateral Agreement provides issuer rating acceptability or gives Fannie Mae the right to take any action in the event of a rating drop.

**Section 106.05. Documenting Rating in Servicing File**

Each time the issuer’s rating is verified, the Servicer must document the current rating in its Servicing File.

**Section 106.06. When Issuer Rating Fails to Meet Standard**

If the Letter of Credit issuer fails to meet the rating standards prescribed by the Achievement Agreement, other Collateral Agreement, or the Guide (if not specified in the Achievement Agreement or other Collateral Agreement), the Servicer must:

- immediately notify Multifamily Business Operations; and
- send written notification to the Borrower to furnish a replacement or confirming Letter of Credit from an acceptably rated institution by the replacement deadline specified in the applicable Achievement Agreement or Collateral Agreement, or if not specified, by the earlier of 30 days after the date of such notice, or 5 Business Days prior to the Letter of Credit’s expiration date.

**Section 106.07. Monitoring Expiration Dates**

The Servicer must effectively monitor the expiration date of any Letter of Credit to ensure that Fannie Mae receives an acceptable renewal or replacement Letter of Credit by the deadline specified in the Achievement Agreement or other Collateral Agreement, or if not specified, by at least 5 Business Days prior to the Letter of Credit’s expiration date. Failure to provide a substitute or renewal Letter of Credit will result in Fannie Mae’s presentment of a sight draft against the expiring Letter of Credit.

**Section 106.08. Draws on the Letter of Credit**

The Servicer must promptly notify Multifamily Asset Management and Multifamily Business Operations whenever a draw on a Letter of Credit may be warranted. If Fannie Mae determines that a draw should be made, Fannie Mae will present a sight draft, signed by Fannie Mae (as beneficiary) to the issuer and arrange to have the cash proceeds wired to a designated Fannie Mae account.

**Section 106.09. Release/Reduction of Letter of Credit or Other Collateral**

Unless requested in connection with the Mortgage Loan being repaid in full, the Servicer is responsible for:
assessing any Borrower request for a full release or partial reduction of the Letter of Credit or other collateral held by Fannie Mae or the Servicer in accordance with the terms and conditions of the applicable Achievement Agreement or other Collateral Agreement;

- sending a recommended course of action to Multifamily Asset Management; and

- providing written notification to the Borrower of the approval or denial of each request.

Section 106.10. Replacement Letters of Credit

Any replacement Letter of Credit must have an expiration date that is at least 30 days past the expiration of the applicable Achievement Agreement or other Collateral Agreement.

Section 107. Bond Transactions and Credit Enhancement Mortgage Loans (05/21/18)

Section 107.01. Borrower Obligations

A. Compliance with Reimbursement Agreement or Loan Agreement, and Other Loan Documents

The Servicer must monitor Borrower's compliance with any Reimbursement Agreement, and the other Loan Documents and Bond Documents. For example, the Servicer must monitor financial information required to be provided by the Borrower or any other Person under the Reimbursement Agreement.

B. Payment of Fees

1. Collection from Borrower

In addition to invoicing and collecting from the Borrower the Scheduled Bond Payments (or Principal and Interest payment on any Credit Enhancement Mortgage Loan), and other amounts owing, the Servicer is responsible for collecting all payments due from the Borrower in accordance with the terms and conditions of the Reimbursement Agreement, Loan Agreement, and other Loan Documents, including the following:

- reimbursement of all amounts disbursed by Fannie Mae under either:
  - its Credit Enhancement Instrument or its MBS issued as Credit Enhancement; and
  - the Loan Documents evidencing or securing the Credit Enhancement Mortgage Loan or any other Collateral Agreement for the Bonds;
the Facility Fee and the Activity Fee;

- all amounts required to be paid by Borrower to fully replenish the Principal Reserve Fund following any use of funds in the Principal Reserve Fund by the Bond Trustee;

- any Prepayment Premium or other Termination Fee payable by the Borrower with the Prepayment of a Credit Enhancement Mortgage Loan; and

- any other fees, expenses, or reimbursements required to be made by the Borrower under the Reimbursement Agreement.

2. **Calculate Amounts Owing**

The Servicer must immediately invoice the Borrower upon receipt from Fannie Mae of the information the Servicer requires to calculate amounts owing from the Borrower under the Reimbursement Agreement or any other Loan Agreement evidencing or securing the Credit Enhancement Mortgage Loan. Upon receipt from the Borrower, the Servicer must remit the funds to the appropriate parties in accordance with the timing and terms of the Reimbursement Agreement or the applicable Loan Document.

3. **Notification of Fannie Mae Advanced Funds**

Fannie Mae will notify the Servicer on or after each date on which Fannie Mae disburses funds, of the amount disbursed, under any:

- Credit Enhancement Instrument;

- Loan Document evidencing or securing a Credit Enhancement Mortgage Loan or any other Collateral Agreement for Bonds; or

- Credit Enhancement for any Interest Rate Hedge, including any Swap Collateral Agreement, Interest Rate Swap Credit Enhancement Instrument, or Interest Rate Swap Credit Support Annex.

4. **Collection from Borrower of Fannie Mae Advanced Funds**

The Servicer must collect from the Borrower and immediately remit to Fannie Mae funds equal to:

- the amount provided by Fannie Mae in connection with any Credit Enhancement Mortgage Loan or any Credit Enhancement for an Interest Rate Hedge; and/or

- the Activity Fee with respect to the related Credit Enhancement Mortgage Loan, to the extent that the Borrower does not fully reimburse Fannie Mae by 2:00 p.m. Eastern Time, on the date on which Fannie Mae provided the
funds in connection with such Credit Enhancement Mortgage Loan or such Credit Enhancement for an Interest Rate Hedge.

C. Other Fees

The Servicer must collect from the Borrower and remit to Fannie Mae:

- any other fees, expenses, or additional costs due from the Borrower to Fannie Mae under each Credit Enhancement Mortgage Loan, each Security Instrument, the Reimbursement Agreement, or any other Loan Document; and
- any other amounts due pursuant to written communication from Fannie Mae or the Bond Trustee.

D. Timing of Payments

When the Servicer receives payment from the Borrower with respect to the Reimbursement Agreement, Loan Agreement, or any Loan Document, the Servicer must remit such payment as directed by Fannie Mae.

If payment is not provided to Fannie Mae or the Bond Trustee until the next Business Day, the Servicer must invest the funds overnight and remit all investment earnings to Fannie Mae or the Bond Trustee with the payment; provided, however, that the Servicer is only required to use its best efforts to so invest any payments received after 4:00 p.m. Eastern Time.

E. Principal Reserve Fund

For each Credit Enhancement Mortgage Loan, the Servicer must monitor the Principal Reserve Fund amount and the Interest Reserve Requirement, if any, under the Bond Indenture.

Notwithstanding any provision in the Reimbursement Agreement, Loan Agreement, or any other Loan Document, no withdrawal from a Principal Reserve Fund may be made without the prior written consent of Fannie Mae.

If any withdrawal is made from the Principal Reserve Fund, including any reimbursement to Fannie Mae for amounts paid by Fannie Mae under the Credit Enhancement Instrument or Credit Enhancement Mortgage Loan Documents, the Servicer must collect the amount of such withdrawal from the Borrower.
Section 107.02. Security Instrument; Collateral Agreements; Uniform Commercial Code Filings

A. General

The Servicer must monitor the Borrower's continued compliance with the requirements of the Security Instrument and any other Collateral Agreement.

B. Cash Collateral Agreement

Upon request, the Servicer must notify Fannie Mae regarding the status of the investment of the cash collateral posted under any Collateral Agreement. The Servicer must monitor and ensure that any control agreement required to perfect Fannie Mae’s security interest in such pledged collateral remains in full force and effect.

C. Investment of Collateral

The Servicer must perform reasonable servicing functions, as directed by Fannie Mae, with respect to any Security Agreement. The Servicer acknowledges and agrees, however, that the Servicer has no discretion to direct investment, application, or release of the collateral under any Security Agreement except upon express written authorization and direction from Fannie Mae.

D. Monitoring Uniform Commercial Code Filings

The Servicer must monitor and ensure that all UCC filings for Fannie Mae in connection with Loan Documents or related Bond Documents are continued, prior to their expiration, in accordance with the requirements of the jurisdiction in which they are filed.

The Servicer must provide each Bond Trustee with written notice of the need to file continuation statements for all Uniform Commercial Code filings for the Bond Trustee for the benefit of Fannie Mae no later than 90 days prior to the expiration of the UCC filings, and must actively, diligently, and persistently seek to obtain confirmation from each Bond Trustee that the requisite continuation statements have been filed prior to the expiration of the UCC filings.

Section 107.03. Remarketing Agent Changes

Fannie Mae must approve any change in the Remarketing Agent if Fannie Mae is providing Bond Liquidity support for an existing variable rate Bond or for index or reset rate Bonds subject to remarketing on certain scheduled mandatory tender and remarketing dates.

To request approval of a new Remarketing Agent, the Lender must submit to Fannie Mae Multifamily Partner Risk Management and Multifamily Asset Management the following information regarding the proposed Remarketing Agent:

- annual financial statements for the most recent fiscal year;
description of the operation, knowledge, and experience in public finance and tax-exempt markets, including experience in remarketing variable-rate demand Bonds;

- current weekly variable-rate demand Bond remarketing book, including dollar amount; and

- description of any failed remarketings.

The proposed Remarketing Agent should:

- currently remarket at least $250 million of weekly variable-rate demand Bonds;

- have experience continuously remarketing weekly variable-rate demand Bonds for the past 3 years;

- have a minimum net worth of $5 million; and

- have a minimum broker line of credit sufficient for warehousing $100 million of rated Bonds at any time.
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Chapter 2 – Reporting and Remitting

Section 201. Generally (10/17/11)

This Chapter:
- outlines the accounting policies and procedures that apply to Mortgage Loans;
- applies to both Cash and Securitized Mortgage Loans, except where noted that a particular procedure is applicable only to one or the other execution;
- describes the methods for accounting for scheduled monthly payments, payment shortages, additional principal payments, repayments of advances, and payments in full; and
- describes Fannie Mae's remittance requirements, the method for remitting, and the format for reporting Mortgage Loan information on all transactions.

Fannie Mae purchases Mortgage Loans for cash or in exchange for the issuance of a Security. Fannie Mae reserves the right to later place any of the Mortgage Loans purchased for cash into a Security (e.g., PFP MBS). If Fannie Mae securitizes a Mortgage Loan, the Servicer may be required to make certain changes to its reporting and remitting procedures. If such an event occurs and changes to a Servicer’s reporting and remitting procedures will be required, Fannie Mae will notify the Servicer in writing.

Fannie Mae reserves the right to modify its Remittance Accounting system and forms to accommodate future changes to its overall systems applicable to Mortgage Loans.

Section 202. Collection, Tracking and Reporting of Monthly P&I Payments and T&I Amounts (10/17/11)

The Servicer is responsible for collecting monthly P&I payments from the Borrower in accordance with the terms of the Note executed by the Borrower. All P&I payments and T&I amounts collected by the Servicer in connection with Mortgage Loans must be deposited in the applicable P&I and T&I Custodial Accounts maintained in accordance with the requirements of Chapter 1 of this Part.

The Servicer must track and account separately for all P&I payment activity relating to each Mortgage Loan. The Servicer must report to Fannie Mae on the P&I payment activity relating to each Mortgage Loan as provided in this Chapter.
Section 203. Reporting Loan Activity and Security Balance
(06/30/15)

Section 203.01. Use of Fannie Mae eServicing System

The Servicer must use Fannie Mae’s eServicing System to report Mortgage Loan level information on all Cash Mortgage Loans and Securitized Mortgage Loans. The Servicer must register to use the eServicing System prior to use. Information regarding registering for the eServicing System can be found on www.efanniemae.com. The Servicer must segregate its Cash Mortgage Loan servicing portfolio from its Securitized Mortgage Loan servicing portfolio for reporting purposes.

Section 203.02 Reporting Specific Transactions

All reportable transactions will fall into one or more categories. Some transactions update the status of a Mortgage Loan or summarize collection activity, while others update the information in Fannie Mae’s records (e.g., Property addresses, Servicer Mortgage Loan identification numbers, Mortgage Loan terms, subservicing status, etc.).

Section 203.03 Monthly Activity Reporting

A. When to Begin Reporting

The Servicer must use the eServicing System to report its monthly Mortgage Loan activity to Fannie Mae following the end of each Reporting Period, commencing with the month following the:

- date Fannie Mae acquired the Cash Mortgage Loan or PFP Mortgage Loan; or
- Issue Date for Securitized Mortgage Loans (other than PFP MBS).

B. Cutoff Dates for Loan Activity Reporting

The following are the cutoff dates for activity reporting on Mortgage Loans:

<table>
<thead>
<tr>
<th>Monthly Activity Cutoff Date</th>
<th>Monthly Activity Report Due Date</th>
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</thead>
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<tr>
<td>Servicer may establish as its cutoff date any day from the 25th of the month to the last day of the month.</td>
<td>Not later than the second Business Day of the month following the cutoff date for the Reporting Period.</td>
</tr>
</tbody>
</table>

C. Cash Mortgage Loan – Reporting Remittance Amount

On the last Business Day before the designated Remittance Date, the Servicer must electronically report the remittance amount using the Cash Remittance System that is to be
drafted by Fannie Mae on the Remittance Date. The Servicer may enter drafting information into the Cash Remittance System at any time until 4:00 p.m. Eastern Time, which is the designated cutoff time to enable Fannie Mae to draft the remittances on the next Business Day.

The Servicer may change the information for individual drafts at any time prior to the 4:00 p.m. Eastern Time cutoff time (and the Servicer’s transmission of the information to Fannie Mae). After the remittance information is electronically transmitted to Fannie Mae, the Cash Remittance System will generate a report for the Servicer to confirm Fannie Mae's receipt of its drafting instructions. Fannie Mae will then draft the related funds on the following Business Day using an automated clearing house. The Servicer will be able to print reports of its drafting activity to facilitate recordkeeping and reconciliation of account information.

Section 203.04 Monthly Securitized Mortgage Loan Security Balance Reporting

A. Reporting Security Balances

For each Security Pool serviced by the Servicer, the Servicer must submit a monthly Security Balance report that references:

- the Security Balance; and
- the Security Pool number.

B. Same Month Pooling – Security Balance for First Reporting Cycle

For Same Month Pooling Mortgage Loans, the Borrower will have made no payment as the monthly debt service payment will not yet have come due. Because the Servicer’s Security Balance report for the month following the Issue Date of the Security Pool under the Same Month Pooling Delivery option will not include an amount for principal curtailment for amortizing Mortgage Loans, the Servicer must report the Issue Date Principal Balance of the Mortgage Loan as the first reporting cycle Security Balance. As long as the Servicer reports the Issue Date Principal Balance of the Securitized Mortgage Loan in its first Security Balance report, there will be no impact on the Pool-to-Security balance reconciliation for that month.

C. Security Balances Due by Second Business Day

The Servicer must have transmitted all of its Security Balances (or corrections to balances reported in error) to Fannie Mae by 5:00 p.m. Eastern Time on the second Business Day of each month following the Reporting Period. If the Servicer anticipates a problem in meeting this reporting deadline or has a transmission problem that will result in late reporting, the Servicer must contact its Fannie Mae Representative.
D. Failure to Meet Reporting Deadline

If the Servicer fails to meet Fannie Mae’s reporting deadline, Fannie Mae may estimate the Servicer’s Security Balances so Fannie Mae can pass-through payments to Investors and publish Security Balances in a timely manner. When Fannie Mae does this, Fannie Mae’s estimate will be both the published Security Balance, and the beginning Security Balance used for the next month’s Security Balance report. Fannie Mae will send the Servicer written notification of any published estimated Security Balance within 10 days after publication by Fannie Mae.

Section 203.05 Due Dates for Reports

The exact due date of the Servicer’s submission of its reports depends on the type of transaction being reported.

A. Removal Transactions

The Servicer must report removal activity (e.g., payoff, repurchase, liquidated-held for sale, and liquidated third party sale/condemnation) by the second Business Day of the month following the cutoff date for the Reporting Period in which the activity occurred. The Servicer may correct any removal activity reporting error by resubmitting the corrected information in time to reach Fannie Mae by the second Business Day of the month following the Reporting Period. If the Servicer is unable to correct the error, the Servicer must notify its Fannie Mae Representative about the error.

B. All Other Transactions

The Servicer must make sure that all other transactions (which are the transactions that comprise the bulk of its reports) are transmitted in sufficient time for receipt by Fannie Mae by the second Business Day of the month following the cutoff date for the Reporting Period.

Section 203.06 Mortgage Loan Activity Record

The Loan Activity Record is used to provide Mortgage Loan-level detail of amounts due to Fannie Mae or the Investor for each Mortgage Loan on the Servicer's trial balance. The Mortgage Loan-level information can be broken down into the following 3 categories.

A. Payment Collection

Payment collection relates to the receipt and application of the monthly payment. The information that must be reported includes:

- actual last paid installment ("LPI") date;
- actual Unpaid Principal Balance ("UPB"); and
remittance amount (distributed between interest and principal).

Under the Same Month Pooling option, the Servicer must not report a principal distribution amount for the first reporting cycle following the Issue Date of the Security Pool because no payment will have come due from the Borrower. For the first reporting cycle, the actual Unpaid Principal Balance of the Mortgage Loan will equal the Issue Date principal balance, as no principal payment will be subtracted from the Security Balance or passed through to the Investor.

B. Fee Collection

Fee collection relates to any special fees that were collected from the Borrower during the Reporting Period.

C. Mortgage Loan Status

Mortgage Loan status relates to special actions that have occurred (e.g., a payoff or a repurchase). An action code and an action date (specifying when the reported action occurred or will occur) must be reported. The User Manual for the eServicing System provides detailed information regarding action codes and action dates.

Section 203.07 Reports Generated by Fannie Mae

A. MBS Mortgage Loan Reports

On approximately the 10th of the month, the eServicing System provides P&I Draft Amount reports that the Servicer may download or view to verify the amount that will be drafted on the 18th of the month. The reports also include, if applicable, Prepayment Premium amounts that must be passed through to Fannie Mae (which include portions due to Fannie Mae and to the investor).

B. Cash Mortgage Loan and MBS Mortgage Loan Reports

After Fannie Mae processes the Servicer’s information in the eServicing System, reports are produced to highlight the reported activity. These reports are designed to assist the Servicer in reconciling the monthly information generated from the eServicing System with its internal records. These reports are available to the Servicer after the 22nd day of each month.
Section 203.08 Monthly MBS Mortgage Loan Reconciliations - Pool-to-Security Balance Reconciliations (Not Applicable to PFP MBS)

A. Reconciliation Required

At the end of each Reporting Period, the Servicer must reconcile the actual ending Mortgage Loan balance for the Mortgage Loan in any given Security Pool to the ending Security Balance for that Security Pool. To perform this reconciliation, the Lender must use the following calculation:

<table>
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<th>Function</th>
<th>Ending Principal Balance for the Mortgage Loan in Security Pool (from current month)</th>
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<tr>
<td>PLUS</td>
<td>Prepaid Principal (as of current month)</td>
</tr>
<tr>
<td>MINUS</td>
<td>Delinquent Principal (as of current month)</td>
</tr>
<tr>
<td>MINUS</td>
<td>Scheduled Principal (as of current month)</td>
</tr>
<tr>
<td>PLUS</td>
<td>Principal Portion of Last Installment for Liquidated Mortgage Loan (as of current month)</td>
</tr>
<tr>
<td></td>
<td><strong>Adjusted Principal Balance for Security Pool</strong></td>
</tr>
<tr>
<td>MINUS</td>
<td>Ending Security Balance for Reporting Period</td>
</tr>
<tr>
<td>EQUALS</td>
<td><strong>Difference</strong></td>
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B. Rounding Adjustment

Because the total amount of the Mortgage Loan that is issued for a Security Pool is rounded down to the next lowest whole dollar amount of the actual “Issue Date Principal Balance of the Mortgage Loan”, the Security Balance will be smaller than the actual Unpaid Principal Balance of the Mortgage Loan. The difference will never be greater than $0.99 for a single Security Pool. The Servicer must adjust for this difference in the first monthly accounting report it submits after the Issue Date of the Security, classifying it as an “unscheduled” principal adjustment.

C. Required Annual Adjustment to Correct Principal Balance vs. Security Balance Difference

Other differences may arise in the reconciliation between the Unpaid Principal Balance of the Mortgage Loan in a Security Pool and the outstanding Security Balance. These differences cannot exceed more than $0.25 for any Mortgage Loan in the Security Pool. At least once a year, the Servicer must make an adjustment to correct any differences.
1. If Security Balance is Greater than Unpaid Principal Balance

If the Security Balance is higher than the Unpaid Principal Balance of the Mortgage Loan, the Servicer must immediately deposit the funds in the “scheduled/scheduled” P&I Custodial Account for Security Pools so that the funds can be passed through to Fannie Mae (as an “unscheduled” principal collection) with the Servicer’s next monthly remittance.

2. If Security Balance is Lower than Unpaid Principal Balance

If the Security Balance is lower than the Unpaid Principal Balance of the Mortgage Loan, the Servicer may adjust a subsequent pass-through amount that includes an “unscheduled” principal collection to correct for this difference.

D. Pool-to-Security Reconciliation Certification

The eServicing System produces a Pool-to-Security Reconciliation on a monthly basis to assist Servicers with review. Servicers are required to review and certify any pool-to-security difference each month by month end. Differences occur when the MBS pool security balance does not match the sum of the scheduled Unpaid Principal Balance of the Mortgage Loan. Fannie Mae calculates pool-to-security differences after monthly Mortgage Loan and Security reporting is complete. For each pool with a difference, the Servicer must review the deficiency, research the difference, and determine the appropriate remedy. The Servicer’s certification includes the identification and selection of a deficiency reason, and a statement of how it should be resolved.

Section 204. Calculation of Interest Due (10/17/11)

Section 204.01. Generally

Generally the Borrower's monthly payment consists of interest, principal, and deposits for insurance, taxes, replacement reserves and replacement hedges or some combination of such items. In some instances, the payment may include additional funds to be applied toward the unpaid principal balance or to repay funds advanced by the Servicer. The Servicer must account for each portion of the Borrower's monthly payment in the Servicer's records. The Servicer must track both actual and scheduled Mortgage Loan balances (a.k.a., Security Pool and Security balances) and reconcile any outstanding difference (e.g., the Servicer advances for insufficient Borrower payments).

Section 204.02. Calculating Interest Due

The interest calculation method is generally specified in the Loan Documents. Servicers are required to calculate interest due for each Mortgage Loan as required by the Loan
Documents. If the Loan Documents do not contain any information regarding the interest calculation method, then Servicers should assume a 30/360 accrual method.

A. Actual/360 Interest Calculation Method

Interest will accrue based upon the actual number of days in a calendar month and a 360-day year.

B. 30/360 Interest Calculation Method

Interest will accrue based upon a 30-day month and a 360-day year.

Section 205. ARM Mortgage Loan Interest Rate and Monthly Payment Changes (06/30/15)

Section 205.01. Adjustable Rate Mortgage Loan Interest Rate Changes and Required Monthly Payments

The Servicer must enforce each Mortgage Loan in accordance with the terms of the executed Loan Documents. This includes making periodic interest rate and payment adjustments in connection with any type of Adjustable Rate Mortgage Loans. The Servicer must change the Mortgage Loan interest rate and monthly payments to the fullest extent permitted or required, maintaining at all times the Mortgage Loan margin specified in the executed ARM Note. Factors used to determine the new interest rate for ARM Mortgage Loans include:

- the Index on which the rate is to be based;
- the “look back” period;
- any applicable interest rate change limitations; and
- the Mortgage Loan Margin.

If the Servicer fails to make a timely interest rate or payment adjustment, the Servicer must use its own funds to satisfy any shortage.

A. The Adjustable Rate Mortgage Loan Index

The Servicer must determine the Index on which the rate is to be based as specified in the Loan Documents. To assist the Servicer in monitoring indexes, Fannie Mae offers an ARM Index service through its website on www.efanniemae.com/multifamily. The Servicer must establish procedures to monitor the Index to assure that the Servicer uses the latest available Index to determine an interest rate change.
B. Determining the New Monthly Payment

Except for Fannie Mae Structured ARM Loans, a Required Monthly Payment change occurs at established intervals and corresponds to any change in the interest rate. The new monthly payment is calculated by determining the amount required to repay the unpaid principal balance of the Mortgage Loan in substantially equal payments over the remaining amortization period of the Mortgage Loan at the interest rate in effect following the latest interest rate change utilizing the applicable Interest Calculation Method. If the Mortgage Loan is an interest-only Mortgage Loan, the new monthly payment is the monthly interest payment at the interest rate in effect following the latest interest rate change utilizing the applicable Interest Calculation Method. The new Required Monthly Payment becomes effective on the first day of the month following the month in which the interest Rate Change Date occurs.

Section 205.02. Monthly Reporting for ARM Payment/Rate Changes

Prior to the effective date of the Monthly Payment/Rate Change the Servicer must submit a Monthly Payment/Rate Change via the eServicing System. For assistance with rate and/or payment changes, the Servicer must contact its Fannie Mae Representative.

In order for Fannie Mae to account for ARM Mortgage Loans on its books, Fannie Mae must receive the Monthly Payment/Rate Change on a timely basis.

Section 205.03. Structured ARM Loans

Structured ARM Mortgage Loans using ARM Plan Numbers 03487 and 03488 are subject to the same reporting and remittance requirements as other ARM Mortgage Loans except for the differences described in this section.

The interest rate for Structured ARM Loans will be determined based on either the 1-Month or 3-Month LIBOR Index using a 1-Business Day look-back period in accordance with the requirements of the applicable Structured ARM Plan Number. The applicable interest rate will be determined by adding the Mortgage Loan Margin specified in the Note to the applicable Index value. No periodic or lifetime interest rate limitations apply to this computation.

Rate Changes for 1-Month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03488) will occur on the First Payment Date and the first day of each month thereafter until maturity as specified in the Note. Rate Changes for 3-Month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03487) will occur on the first day of the month which is the second month following the First Payment Date and the first day of every third month thereafter until maturity as specified in the Note.

The First Payment Date will be the first day of the second full calendar month following the Mortgage Loan closing date as specified in the Note or, if the closing date is the first day of the month, the First Payment Date will be the first day of the month following the closing date.
For example, if the Mortgage Loan closes on June 15th the First Payment Date is on August 1st and if the Mortgage Loan closes on June 1st, the First Payment Date is on July 1st.

A Required Monthly Payment change occurs at established intervals and corresponds to any change in the interest rate, the number of days in an accrual period, or the unpaid principal balance of the Mortgage Loan.

If the Mortgage Loan amortizes, the Required Monthly Payment is the sum of the monthly interest installment and the monthly principal installment. The monthly interest installment is calculated by multiplying the unpaid principal balance of the Mortgage Loan by the interest rate in effect following the latest interest rate change utilizing an Actual/360 interest accrual method. Equal monthly principal installments will be made over the term of the Mortgage Loan in the amount set forth in the Structured ARM Note.

If the Structured ARM Loan is an interest-only Mortgage Loan, the Required Monthly Payment is the monthly interest payment which is calculated by multiplying the unpaid principal balance of the Mortgage Loan by the interest rate in effect following the latest interest rate change utilizing an Actual/360 interest accrual method as set forth in the Structured ARM Note.

For 1-Month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03488), the new Required Monthly Payment becomes effective on the first day of the month following the month in which the Rate Change Date occurs.

For 3-Month LIBOR Index Structured ARM Mortgage Loans (Plan No. 03487), a new Required Monthly Payment becomes effective on the first day of each month following any change in the interest rate or if the number of days in an accrual period is different from the prior month, as set forth in the Structured ARM Note.

**Section 206. Application of Monthly Payments (10/17/11)**

**Section 206.01. Fannie Mae Form Loan Documents**

For Mortgage Loans originated using Fannie Mae published Note forms, the Servicer must apply monthly payments received from the Borrower as follows:

<table>
<thead>
<tr>
<th>Loan Document Version</th>
<th>Application of Payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-1988 Form Loan Documents using Rider to Multifamily Instrument (Form 4059, 4/88)</td>
<td>Servicer must apply monthly payments received from the Borrower in the following order:</td>
</tr>
<tr>
<td></td>
<td>• first, to impositions due under Uniform Covenant 2 of the Security Agreement, including deposits for T&amp;I, and deposits due under a Collateral Agreement (e.g., Replacement Reserve);</td>
</tr>
</tbody>
</table>
• then, to interest at the Gross Note Rate;
• then, to principal;
• then, to interest on any Servicing and Delinquency Advances made by the Servicer;
• then, to principal on any Servicing and Delinquency Advances made by the Servicer;
• then, to late charges and other funds due the Servicer; and
• finally, to interest at the default interest rate.

The interest portion of the fixed installment must be determined by computing 30 days interest on the outstanding principal balance as of the last paid installment date. For this calculation, always use the Gross Note Rate for the Mortgage Loan or the default interest rate, as applicable.

### Post-1988 and Pre-1998 Loan Documents using Rider to Multifamily Instrument (Form 4058, 6/93 or Form 4059, 5/93) (the "New Document Loans")

| Servicer must apply monthly payments received from the Borrower in the following order: |
| first, to any delinquent interest (other than interest attributable to the default interest rate); |
| then, to any delinquent principal; |
| then, to interest for the current month at the Gross Note Rate; |
| then, to principal for the current month; |
| then, to reimburse the Servicer or Fannie Mae for any T&I payments; |
| then, to reimburse the Servicer or Fannie Mae for any delinquency resolution costs, attorney fees, Appraisal fees, environmental assessment costs, or physical needs assessment costs; |
| then, to reimburse the Servicer or Fannie Mae for any payments to protect the Property; |
| then, to late charges; |
| then, to default interest; |
| then, to T&I Custodial Account deposits; and |
| finally, to Collateral Agreement Custodial Account deposits. |

### Post-1998 Loan Documents, unless otherwise instructed by Fannie Mae

| Servicer must apply monthly payments received from the Borrower in the following order: |
| first, to any delinquent interest (other than interest attributable to the default interest rate); |
| then, to any delinquent principal; |
| then, to interest for the current month at the Gross Note Rate; |
| then, to principal for the current month; |
| then, to reimburse the Servicer or Fannie Mae for any T&I payments; |
| then, to reimburse the Servicer or Fannie Mae for any delinquency resolution costs, attorney fees, Appraisal fees, environmental assessment costs, or physical needs assessment costs; |
| then, to reimburse the Servicer or Fannie Mae for any payments to protect the Property; |
| then, to late charges; |
| then, to default interest; |
| then, to T&I Custodial Account deposits; and |
| finally, to Collateral Agreement Custodial Account deposits. |

### Section 206.02. Non-Fannie Mae Form Loan Documents

For Mortgage Loans not originated using Fannie Mae published Note forms, the Servicer must apply monthly payments received from the Borrower as required by the relevant Loan
Documents. If the Loans Documents do not provide for the order of application of monthly payments, then the Servicer must follow the requirements for the Fannie Mae Post-1998 Loan Documents as provided in Section 206.01 above.

Section 207. Payment Shortages (10/17/11)

When payments received from the Borrower are less than the total amount then due under the Mortgage Loan (including P&I and T&I, but may also include required deposits to the Replacement Reserve or other monies due as required in the Loan Documents), the Mortgage Loan is in default and the Servicer must follow the default procedures specified in Chapter 7 of this Part.

The Servicer may not supplement partial payments received from the Borrower with funds from any Collateral Agreement Custodial Account without Fannie Mae's prior written consent.

Section 208. Delinquency and Servicing Advances (06/25/12)

Section 208.01. Generally

A. Applicability

This Section 208 shall apply to all loans purchased by Fannie Mae (i) under the DUS product line and (ii) under any contracts entered into after June 1, 2012, unless any such contract provides that this Section 208 shall not apply to such contract.

B. Delinquency Advances on a Mortgage Loan other than a Credit Enhancement Mortgage Loan

Whether or not the Borrower pays to the Lender the full amount due under a Mortgage Loan (other than a Credit Enhancement Mortgage Loan), the Lender will remit to Fannie Mae Delinquency Advances in an amount equal to all monthly principal and interest installments then owed under each Mortgage Loan, net of Servicing Fees, in the manner and at the time the Lender is required to make remittances under this Guide or the Lender’s Contract. The Lender’s agreement to make Delinquency Advances in respect of a Mortgage Loan constitutes a separate contractual obligation of the Lender to Fannie Mae and is not a guarantee or surety of any obligation of the related Borrower. The Lender’s obligation to fund Delinquency Advances, except in the case of Secondary Risk Mortgage Loans, is not intended to require advances of the principal balance due on the scheduled or accelerated maturity date for payment in full of a Mortgage Loan or advances of principal sums due on the maturity date of a security or Fannie Mae guaranty issued or provided in connection with a DMBS transaction. The Lender’s obligation to fund Delinquency Advances with respect to Secondary Risk Mortgage Loans shall include the obligation to fund the principal balance due on the scheduled or accelerated maturity date for payment in full of a Security or Fannie Mae guaranty issued or provided in connection with a DMBS transaction.
date for payment in full of a Mortgage Loan and to advance principal sums due on the maturity
date of a security or Fannie Mae guaranty issued or provided in connection with a DMBS
transaction.

C. Delinquency Advances on a Credit Enhancement Mortgage Loan

Whether or not the Borrower pays to the Lender the full amount due on a Credit
Enhancement Mortgage Loan, and whether such amounts are payable under the Financing
Agreement, the Note, the Reimbursement Agreement or other transaction documents, the Lender
shall make Delinquency Advances in amounts as follows, each in the amount as required to be
made under the Financing Agreement, the Note, the Reimbursement Agreement or other
applicable transaction document, net of any Servicing Fee otherwise payable to the Lender:

- interest payments as required by the definition of Delinquency Advances, net of
  Servicing Fees;
- monthly installments of principal owed on the Credit Enhancement Mortgage
  Loan, or, if the transaction documents of the Credit Enhancement Mortgage Loan
  require the Borrower to make deposits to a principal reserve fund in lieu of
  amortizing the principal of the Credit Enhancement Mortgage Loan in whole or in
  part, deposit in a special custodial account meeting the requirements of this Guide
  (“Special Custodial Account”) any amounts that the Borrower was obligated
  under the Note, the Reimbursement Agreement or other applicable transaction
  document to pay as deposits to the Principal Reserve Fund (“PRF”) and transfer
  such funds in the Special Custodial Account to the applicable Bond Trustee at
  such time as the funds are required for a mandatory payment of interest and
  principal under the Bonds;
- the annual or other periodic fee of the Issuer as a continuing fee for the issuance
  of the Bonds and the provision of the financing for the Property;
- the annual or other periodic continuing trust administration fee of the Bond
  Trustee;
- the annual or other periodic continuing fee of the rebate analyst, if any, for its
  rebate calculation services;
- the annual or other periodic continuing fee of the remarketing agent, if any, for its
  remarketing services;
- the Credit Enhancement Fee;
- if the transaction documents of the Credit Enhancement Mortgage Loan require
  the Borrower to make deposits to a principal reserve fund in lieu of amortizing the
  principal of the Credit Enhancement Mortgage Loan in whole or in part, the PRF
  Fee; and
- if the Credit Enhancement Instrument contains a liquidity facility for the Bonds,
  the Liquidity Fee.
The Lender shall make such advances to the party, in the manner and at the time the Lender is required to make such remittances under this Guide. The Lender’s agreement to make Delinquency Advances in respect of a Credit Enhancement Mortgage Loan constitutes a separate contractual obligation of the Lender to Fannie Mae and is not a guarantee or surety of any obligation of the related Borrower.

D. Servicing Advances on a Mortgage Loan other than a Credit Enhancement Mortgage Loan

Whether or not Borrower makes payments to the Lender, the Lender shall make Servicing Advances as and when such amounts constituting Servicing Advances are required to be paid.

E. Servicing Advances on a Credit Enhancement Mortgage Loan

Whether or not the Borrower makes payments to the Lender, the Lender shall make Servicing Advances on a Credit Enhancement Mortgage Loan as and when such amounts constituting Servicing Advances are required to be paid. For each Credit Enhancement Mortgage Loan, Servicing Advances shall include, in addition to those items set out in the definition of Servicing Advances, all fees, costs and expenses, whether recurring or non-periodic, not covered by a Delinquency Advance but necessary, as determined by Fannie Mae, to preserve or protect the Bonds or to exercise any legal or equitable remedies under the Bond Indenture, the Bonds or any of the other transaction documents (other than the Loan Documents).

Section 208.02. Duration of Payment of Delinquency Advances or Servicing Advances

A. Obligation to Make Delinquency Advances

Unless the Lender’s Contract expressly provides otherwise, the Lender must make Delinquency Advances until the earliest of:

- the Lender’s purchase of the Mortgage Loan from Fannie Mae;
- the date on which Borrower cures the Mortgage Loan default;
- the date on which the Lender makes the fourth of four continuous months of Delinquency Advances;
- the Asset Valuation Date established in accordance with Section 6.02 of the Master Loss Sharing Agreement; or
- the date on which the Borrower pays off the Mortgage Loan.

Notwithstanding the foregoing, (i) for Securitized Mortgage Loans, the Lender must make Delinquency Advances to Fannie Mae as long as the Mortgage Loan is held by the trust established in connection with such securitization, and (ii) for Credit Enhancement Mortgage Loans, the Lender must make Delinquency Advances to Fannie Mae as long as the Bonds are outstanding. However,
in either case, Lender will receive reimbursement for such Delinquency Advances upon request as required by Section 208.02(C) following the date on which Lender makes the fourth of four consecutive months of Delinquency Advances or, if earlier, immediately following the Maturity Date of the Mortgage Loan and, thereafter, the Lender will receive reimbursement for each Delinquency Advance upon request. If the Lender believes that Delinquency Advances with respect to a Mortgage Loan are no longer required to be made pursuant to this Section 208.02, the Lender shall notify Fannie Mae, in writing, and upon written confirmation by Fannie Mae that it concurs that no further Delinquency Advances are required, the Lender shall cease making Delinquency Advances with respect to such Mortgage Loan.

Notwithstanding anything in this Section 208 to the contrary, with respect to any Non-Performing Mortgage Loan with a Last Paid Installment prior to March 1, 2012, the Lender shall be required to continue to make Delinquency Advances until the earliest of:

- the Lender’s purchase of the Mortgage Loan from Fannie Mae;
- the date on which Borrower cures the Mortgage Loan delinquency;
- the Asset Valuation Date established in accordance with Section 6.02 of the Master Loss Sharing Agreement; or
- the date on which the Borrower pays off the Mortgage Loan.

With respect to any such Non-Performing Mortgage Loan with a Last Paid Installment prior to March 1, 2012, the Lender shall be entitled to interim loss sharing as provided in Section 801 of the DUS Guide.

B. Obligation to Make Servicing Advances

Unless the Lender’s Contract expressly provides otherwise, the Lender must make Servicing Advances until the earliest of:

- the Lender’s purchase of the Mortgage Loan from Fannie Mae;
- the date on which the Borrower cures the Mortgage Loan default;
- the Asset Valuation Date related to a Foreclosure Event, a sale of the Property directed by a court of competent jurisdiction, a Discounted Loan Payoff, or Note Sale; or
- the date on which the Borrower pays off the Mortgage Loan.

C. Reimbursement for Delinquency and Servicing Advances

Upon the expiration of the Lender’s obligation to make Delinquency Advances as provided above or, with respect to any Securitized Mortgage Loan, following the date on which the Lender makes the fourth of four consecutive months of Delinquency Advances, the Lender may, by written notice to Fannie Mae submitted on Fannie Mae Form 4828, together with any supporting
documentation required by Fannie Mae, request reimbursement for any and all Delinquency Advances made by the Lender with respect to the Mortgage Loan.

Upon making a Servicing Advance with respect to a Mortgage Loan, Lender may, by written notice to Fannie Mae submitted on Fannie Mae Form 4829, together with any supporting documentation required by Fannie Mae, request reimbursement for such Servicing Advance.

Fannie Mae shall reimburse the Lender for such Delinquency Advances and Servicing Advances within 60 days following Fannie Mae’s receipt and approval of the Lender’s written request.

This Section 208.02.C shall not apply to Delinquency Advances or Servicing Advances made by the Lender with respect to any Non-Performing Mortgage Loan with a Last Paid Installment prior to March 1, 2012.

**Section 208.03. Repayment of Servicing Advances from Borrower**

Unless otherwise directed in writing by Fannie Mae, the Lender must seek restitution of any Servicing Advances from the Borrower. For this repayment, the Lender may require the Borrower to make full restitution on the next occurring Mortgage Loan payment due date or may permit the Borrower to make restitution payments over several months. Amounts due from the Borrower for which a Servicing Advance was made may include default interest on the Servicing Advances as permitted in the Loan Documents. Interest must be calculated from and including the date the Servicing Advance is made to but excluding the date the repayment is received. If the Lender permits restitution over several months, such restitution payments will not be included in any required calculation of DSCR.

If the Lender has been reimbursed by Fannie Mae for any Servicing Advances and receives restitution of such Servicing Advances from the Borrower, the Lender shall promptly remit such amounts to Fannie Mae.

**Section 208.04. No Capitalization of Servicing Advances for Securitized Mortgage Loans**

For the purpose of calculating monthly distributions to the Security certificate holders or other investors, Servicing Advances will not be added to the scheduled principal balance of the related Mortgage Loan, even though the terms of the Mortgage Loan may permit increases to the outstanding principal balance of the Mortgage Loan for such advances and may permit Fannie Mae or the Lender, as applicable, to pursue recovery of those advances from the Borrower. Servicing Advances do not reduce or modify the Borrower’s obligation under the Loan Documents.
Section 208.05. Entitlement to Default Interest

Between Fannie Mae and the Lender, unless the Lender’s Contract expressly provides otherwise, so long as the Lender is obligated to make or has made Delinquency Advances as provided in Section 208.02(A), the Lender is entitled to retain 50 percent of the default interest collected from or on behalf of the Borrower. The other 50 percent of such default interest, to the extent collected from or on behalf of the Borrower, is remitted to and retained by Fannie Mae. Notwithstanding anything in this Section 208.05 to the contrary, with respect to any Non-Performing Mortgage Loan with a Last Paid Installment prior to March 1, 2012, if the Lender is obligated to make Delinquency Advances then the Lender is entitled to all default interest collected from or on behalf of the Borrower with respect to such Mortgage Loan. If the Lender is not obligated to make any Delinquency Advances on a Non-Performing Mortgage Loan, all default interest shall be remitted to and retained by Fannie Mae. Without regard to whether the Lender is making Delinquency Advances, Fannie Mae is always entitled to the interest that accrues at the stated interest rate on the Mortgage Loan net of the Lender’s Servicing Fee.

Section 209. Remittance Procedures (10/17/11)

The Servicer must remit to Fannie Mae collections and other amounts due by the specified Remittance Date established for each product type.

Section 209.01 Definitions

For purposes of this Section, the following terms shall have the definitions set forth below.

A. Interest Distribution Amount

For each Mortgage Loan, the interest portion, adjusted to the Pass-through Rate of the monthly installment (without regard as to whether such amount was collected), due on the first day of the month in which a Remittance Date occurs or which becomes due at any time during the preceding month except the first day thereof.

B. Principal Distribution Amount

For each Mortgage Loan, the total of (1) the principal portion of the monthly installment due during the period beginning on the second day of the month preceding the month in which a Remittance Date occurs and ending on the first day of the month in which a Remittance Date occurs, without regard as to whether such amount was collected, and (2) any unscheduled principal recovery collected on a Mortgage Loan during the month preceding the month in which a Remittance Date occurs.
C. DMBS Discount Amount

For each Mortgage Loan that is backing a DMBS Security, the discount amount is determined by subtracting the purchase proceeds amount of the DMBS Security from the face amount of the DMBS Security issued. The discount is due on the 1st DMBS rollover date and each subsequent rollover date until final liquidation of the underlying Mortgage Loan.

D. DMBS Principal Amount

For each Mortgage Loan that is backing a DMBS Security, the total principal portion of the monthly installment based on the scheduled amortization payment collected by the Servicer during the term of the outstanding DMBS Security. The principal is due on the first DMBS rollover date and each subsequent rollover date until final liquidation of the underlying Mortgage Loan. For example, a DMBS Security issued on August 1 for a three (3)-month term would mature (rollover) on November 1; therefore, the principal amount due to Fannie Mae on November 1 would be the total of the scheduled amortization payments during that three (3)-month period.

E. Monthly Remittance

The total of the Interest Distribution Amount and Principal Distribution Amount to be remitted to Fannie Mae on each Remittance Date.

F. Remittance Dates

The Remittance Date is the date the Servicer is to make its Monthly Remittance to Fannie Mae for each Mortgage Loan.

Section 209.02. Monthly P&I Remittance Dates for Cash and MBS Transactions

Monthly P&I remittances are due on the following designated Remittance Dates unless other dates are provided for in the Lender’s Contract:

<table>
<thead>
<tr>
<th>Type of Mortgage Loan</th>
<th>Monthly P&amp;I Remittance Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Cash Fixed Rate, ARM and PFP MBS Mortgage Loans, except as noted below</td>
<td>18th calendar day of each month (or preceding Business Day if the 18th calendar day is not a Business Day).</td>
</tr>
<tr>
<td>ARM Mortgage Loans (including ARM Mortgage Loans that are backing a PFP MBS) purchased for Cash on or after May 25, 2000</td>
<td>11th calendar day of each month (or preceding Business Day if the 11th calendar day is not a Business Day).</td>
</tr>
<tr>
<td>Cash Structured ARM Mortgage Loans (including Structured ARM Mortgage Loans)</td>
<td>1st calendar day of each month (or preceding Business Day if the 1st calendar day is not a Business Day).</td>
</tr>
<tr>
<td>Type of Mortgage Loan</td>
<td>Monthly P&amp;I Remittance Date</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>that are backing a PFP MBS)</td>
<td>Business Day). The Structured ARM Note will obligate the Borrower to make its payment to the Servicer two (2) Business Days prior to the 1st calendar day of each month in order to provide sufficient time to the Servicer to receive and process this payment.</td>
</tr>
<tr>
<td>Securitized Mortgage Loans and MBS Structured ARM Mortgage Loans (except DMBS)</td>
<td>18th calendar day (or preceding Business Day if the 18th calendar day is not a Business Day) of the month following the month in which the Security is issued and the 18th calendar day of each month thereafter, up to and including the month in which the Security Balance drops to zero. For example, if the Mortgage Loan Maturity Date is November 1, and the scheduled balloon payment due on that date reduces the Security Balance to zero, the last Security Monthly Remittance would be due on November 18 (not December 18).</td>
</tr>
<tr>
<td>DMBS Mortgage Loans</td>
<td>For Securitized Mortgage Loans utilizing the DMBS execution, the DMBS Principal Amount and DMBS Discount Amount remittance is due on the date the DMBS pool matures. For example, a DMBS issued on August 1 for a three (3)-month term would mature on November 1; therefore, the Principal Amount and DMBS Discount Amount remittance would be due on November 1 and would include the Discount Amount as well as the total Principal Amount collected by the Servicer during that three (3)-month period.</td>
</tr>
</tbody>
</table>

**Section 209.03. Remittance Dates for Cash Mortgage Loan Payoffs**

For Cash Mortgage Loans, the Servicer must transmit (remit) funds through the Cash Remittance System on the next Business Day following receipt of any of the following Mortgage Loan payoff transactions:

- Full prepayments (payoff of the Mortgage Loan prior to the scheduled maturing date);
- Partial prepayments; or
Prepayment Premiums.

Section 209.04. Use of Cash Remittance System and Requirements

To designate a drafting arrangement for a Custodial Account under the Cash Remittance System, the Servicer must make the appropriate arrangements through its custodial bank(s). When those arrangements have been made, the Servicer must use the Cash Remittance System to electronically transmit information about the drafting arrangement to Fannie Mae via efanniemae.com. The Servicer must transmit the appropriate information and submit Authorization for Automatic Transfer of Funds (Form 1055) to Fannie Mae at least ten (10) days before the date on which the Servicer will first need to transmit remittance information for funds that are in the new account.

Section 209.05. Cash Mortgage Loans – Transmitting the Remittance

A. Use of Cash Remittance System

Depending on the type of Mortgage Loan, the Servicer must remit funds through the Cash Remittance System on the Business Day immediately prior to the applicable Remittance Date.

B. Required Date for Commencement of Remittance

Remitting funds for any Cash Mortgage Loan must commence with the month following the month Fannie Mae acquired the Mortgage Loan unless the Mortgage Loan was originated during the month in which it was purchased by Fannie Mae, in which case the first monthly remittance will commence the second month following the month Fannie Mae acquired the Mortgage Loan.

C. Remittance Transaction Codes

The Cash Remittance System relies on remittance type codes to identify the product and execution for which the Servicer is remitting funds. The remittance type codes related to principal and interest and special remittances are linked to the specific drafting account that the Servicer has identified for the applicable product and execution. The Servicer can be linked to only one drafting account whether that account is the P&I Custodial Account for the applicable product and execution serviced under each unique nine-digit Servicer number or the consolidated drafting account. The Servicer must ensure that its drafting instructions (specifically the assignment of remittance type codes) to individual accounts are coordinated with the internal processing of funds within its organization.

The Servicer must assure that its transmissions to Fannie Mae include all of the detail necessary for transmission. This will facilitate better identification of the transactions and ensure timely and accurate processing.
Section 209.06. Securitized Mortgage Loans – Drafting the Remittance – Funds Drafted under Automated Drafting System (Not Applicable to PFP MBS)

The Servicer must make the funds representing the Security Monthly Remittance available for drafting under the Automated Drafting System. To establish a drafting arrangement for a custodial account under the Automated Drafting System (or to change an existing arrangement), the Servicer must void a check from the designated account and enter its nine-digit Fannie Mae identification number in the space where the authorized signature would normally appear. The Servicer must then send the voided check and an executed Multifamily Authorization for Automatic Transfer of Funds (Form 1055) for each drafting arrangement to its custodial bank(s). At the same time, the Servicer must send copies of both the voided check and Form 1055 to Fannie Mae.

When the Servicer remits funds related to Pooled Securitized Mortgage Loans through the Automated Drafting System, it must make the funds available for a single draft, regardless of the number of Security Pools it services. The amount of the draft will be the sum of the principal and interest (calculated at the Security pass-through rate) distributions for that month for any Security other than DMBS and the sum of DMBS Principal Amount and DMBS Discount Amount for DMBS.

Section 209.07. Additional Requirements for Monthly Remittance for Security Transactions (Except DMBS Mortgage Loans)

A. Amount of Security Monthly Remittance

The Security Monthly Remittance is the total of the Security Interest Distribution and Security Principal Distribution Amounts. For each month, the Security Monthly Remittance must include the scheduled principal payment due on the first day of that month plus a full month's interest (calculated at the Security Pass-through Rate) due in arrears for the previous month. It also may include unscheduled prepayments of principal.

The Servicer is required to pass through to Fannie Mae in each Security Monthly Remittance, the full scheduled amounts of principal and interest, regardless of whether such amounts actually have been collected from the Borrower. A full month's interest (calculated at the Security Pass-through Rate) must be included in each Security Monthly Remittance, regardless of whether there has been any partial or full prepayment during the month.

B. Security Interest Distribution Amount

The Security Interest Distribution Amount due is based on the Security Balance remaining after application of the scheduled Mortgage Loan payment due on the first of the
previous month. For example, the Security Interest Distribution Amount due on November 18 would be based on the Security Balance remaining after application of the scheduled Mortgage Loan payment due on October 1 (not November 1).

Section 209.08  Securitized Mortgage Loans – Remitting Fees to Fannie Mae

A.  Guaranty Fee Due on 7th Calendar Day of Month

To compensate Fannie Mae for the liability it assumes in issuing the Security, Fannie Mae receives a Guaranty Fee. The Guaranty Fee is an obligation of the Servicer and must be paid in arrears any Security other than a DMBS and in advance for DMBS on the 7th calendar day, or the preceding Business Day if the 7th calendar day is not a Business Day, of each month, even if there is no collection on the Mortgage Loan or the Mortgage Loan reaches its Maturity Date during the month. Payment of the Guaranty Fee begins with the month following the month in which the Security is issued for any Security other than a DMBS and in the month of issue for DMBS. Fannie Mae will draft the Guaranty Fee from the Servicer's applicable designated P&I Custodial Accounts for Securitized Mortgage Loans. In the event a DMBS Security is issued on a book entry date that prevents the drafting of the Guaranty Fee under the timelines described above, Fannie Mae will perform an additional draft before the end of the month for such Guaranty Fee.

The Guaranty Fee amount due Fannie Mae in any month is equal to either (a) for 30/360 interest accrual Mortgage Loans, one-twelfth of the annual Guaranty Fee rate times the Security Balance remaining after application of the scheduled Mortgage Loan principal payment due on the first day of the previous month, or (b) for Actual/360 interest accrual Mortgage Loans, the annual Guaranty Fee rate divided by 360 times the number of days occurring in the month immediately preceding the Guaranty Fee payment date times the Security Balance remaining after application of the scheduled Mortgage Loan principal payment due on the first day of the previous month. For example, for Securitized Mortgage Loans (other than DMBS) the Guaranty Fee amount due to Fannie Mae on November 7 is calculated on the Security Balance remaining after application of the scheduled Mortgage Loan principal payment due on October 1. The Guaranty Fee amount due to Fannie Mae for a DMBS Mortgage Loan on November 7 is calculated on the Security Balance outstanding as of November 1.

B.  Guaranty Fee Remittance

The monthly Guaranty Fee must be remitted as long as the Security is outstanding, even if there is no collection activity on the Mortgage Loan.

The Servicer must make funds available for the Guaranty Fee draft on the 7th calendar day of the month, or the preceding Business Day if the 7th is not a Business Day.
Under this process, Fannie Mae will send an electronic notice (or “bill”) on the 2nd or 3rd calendar day of each month for Securitized Mortgage Loans other than a DMBS Mortgage Loan and on the Business Day immediately preceding the draft for the DMBS Mortgage Loan. The draft notice will show the amount due for the Guaranty Fees. When the Servicer receives the transmission, the Servicer must review the draft notice for accuracy. If discrepancies are identified for Securitized Mortgage Loans other than a DMBS Mortgage Loan, the Servicer must contact Fannie Mae by the 5th calendar day of the month to provide details on the amount and nature of the discrepancy. If discrepancies are identified for a DMBS Mortgage Loan, the Servicer must contact Fannie Mae immediately to provide details on the amount and nature of the discrepancy. Fannie Mae will then review its records to validate the discrepancy and make any necessary adjustments to the Guaranty Fee bill. On the 7th calendar day of the month, Fannie Mae will draft the Guaranty Fees from the Servicer's designated P&I Custodial Account for Securitized Mortgage Loans. If the 7th calendar day is not a Business Day, the draft will take place on the preceding Business Day.

C. Same Month Pooling – Interest and Guaranty Fee Remittance for First Reporting Cycle

The Servicer's first remittance to Fannie Mae for a Mortgage Loan submitted under the Same Month Pooling delivery option is an "interest-only" remittance because the Borrower will not have made the first payment. Accordingly, because the Borrower will not be required to send a monthly payment to the Servicer under Same Month Pooling until the month following the date the Servicer's first remittance is due to Fannie Mae, the Servicer will have to use some of its own funds to remit the interest that is "scheduled" to be passed through to Fannie Mae for the Mortgage Loan in that month and to make the first required Guaranty Fee remittance. The interest remittance will represent one month's full interest, and will be equal to the Issue Date principal balance of the Mortgage Loan times either (a) for 30/360 interest accrual Mortgage Loans, one-twelfth of the annual Pass-through Rate of the Security, or (b) for Actual/360 interest accrual Mortgage Loans, the annual Pass-through Rate of the Security divided by 360 times the number of days occurring in the month of issuance of the Security. The Guaranty Fee payment will represent one month's full Guaranty Fee, and be calculated as provided in Section 209.08.A.1 above based on Issue Date principal balance of the Mortgage Loan.

Fannie Mae will not reimburse the Servicer for its interest or Guaranty Fee remittance. However, the Servicer must:

- receive a partial month's interest based on the Note Rate from the Borrower at closing (from the date of closing through the end of the month), and
- receive interest based on the Pass-through Rate from the purchaser of the Security (from the first day of the month in which the Security is issued to the Book-entry Delivery Date) as part of the sales proceeds for the Security.
Section 209.09. Notification to Fannie Mae if Unable to Have Funds Available on any Remittance Date

If, for any reason, the Servicer cannot make funds available for drafting on the Business Day prior to the designated Remittance Date, it must immediately notify Fannie Mae by calling the Servicer’s Fannie Mae Representative. The Servicer must describe to Fannie Mae all circumstances and conditions that prevent the monthly remittance from being made on time.

Section 210. Full Prepayments (06/30/15)

Section 210.01. Review of Applicable Loan Documents Required

When the Servicer receives a Borrower’s notification of intent to prepay the Mortgage Loan, it must examine the specific Note (including any applicable addendum, exhibit, modification, or amendment) and Security Instrument (and any applicable rider, exhibit, modification or amendment) to determine whether prepayment of the Mortgage Loan is permitted and, if so, under what conditions. The prepayment provisions of the actual Mortgage Loan Documents govern in each case.

Section 210.02. Notification of Prepayment; Timing of Prepayment

A. Notice and Timing Consistent with Loan Documents

The Borrower’s proposed prepayment date and the timing of its advance notification of its intent to prepay must be consistent with the provisions of the Loan Documents.

B. Borrower Notice Must Contain Date of Intended Prepayment and Comply with Notice Requirements of the Loan Documents

The Servicer must obtain from the Borrower the date on which the Borrower will prepay the Mortgage Loan. The Borrower must give the Servicer advance notice of its intent to make a full prepayment as required by the Loan Documents.

C. Loan Document Requirements for Payoff and Lockout Dates

If a Fannie Mae form Multifamily Note evidences the Mortgage Loan, a prepayment may be made only on the last Business Day before a scheduled Mortgage Loan payment date. Non-Fannie Mae form Notes may not contain the same requirement. Some Notes may contain lockout provisions that prohibit full prepayment for a specified period of time. The Servicer must not permit a payoff that does not comply with the requirements contained in the Loan Document.
D. Notice to Fannie Mae of Proposed Payoff; Use of Fannie Mae Payoff Calculator

The Servicer must notify Fannie Mae, in writing or through the Fannie Mae Payoff Calculator, upon receiving notice from the Borrower of a planned prepayment. Notice of the planned prepayment must be received by Fannie Mae not later than 10 Business Days prior to the contemplated payoff date. The Fannie Mae Payoff Calculator may only be used when the Fannie Mae form Multifamily Note evidences the Mortgage Loan.

Section 210.03. Timing of Confirmation of the Full Prepayment Payoff Amount

The Servicer must ensure that the payoff figure quoted to the Borrower is correct. Accordingly, before the Servicer advises the Borrower of the full prepayment payoff amount, the Servicer must confirm such amount with Fannie Mae. The Servicer's request for confirmation of the full prepayment payoff amount must be submitted to Fannie Mae at least 10 Business Days before the scheduled prepayment date. At least 5 Business Days prior to the scheduled prepayment date, the Servicer must provide the Borrower written confirmation of the amount required to pay off the Mortgage Loan in full.

Section 210.04. Full Prepayment for Cash Transactions and PFP MBS

A. Confirming the Full Prepayment Payoff Amount

1. Calculating the Full Prepayment Payoff Amount

To obtain Fannie Mae’s confirmation of the full prepayment payoff amount, the Servicer must either submit a written statement detailing all amounts that it believes will be due and payable by the Borrower on the prepayment date or submit the information through the Payoff Calculator, including:

- the unpaid principal balance of the Mortgage Loan (as of the prepayment date);
- all accrued and to-be accrued interest, broken down into the net interest portion due to Fannie Mae (calculated at the Pass-through Rate) and the portion to be retained by the Servicer as a Servicing Fee, calculated as if the payoff is occurring on the last day of the month in which the prepayment is occurring;
- any unpaid late fees, if applicable;
- any Prepayment Premium that is due in connection with the full prepayment, broken down into the portions due to Fannie Mae and the Servicer, respectively; and
any other amounts due under the Note, Security Instrument, or any other Mortgage Loan Document, including, if applicable, any unpaid fee due under any Collateral Agreement.

2. **Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer**

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the prepayment (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes any amounts that are owed exclusively to the Servicer, as Fannie Mae will not reimburse the Servicer for such amounts from any of the funds that the Borrower remits to cover the amounts confirmed as being due to Fannie Mae.

3. **Fannie Mae Confirmation of Full Prepayment Payoff Amount for Primary Risk Mortgage Loans**

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond in writing to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to Fannie Mae, as well as the individual items comprising such total amount, including

- the unpaid principal balance of the Mortgage Loan,
- the net accrued interest due Fannie Mae,
- any applicable Prepayment Premium (broken down into the portions due to Fannie Mae and the Servicer), and
- any previously unpaid fees or other amounts owed to Fannie Mae.

Fannie Mae will provide any pertinent instructions for completing the prepayment payoff process, including any specific instructions that the Servicer must include in its payoff quote to the Borrower.

4. **No Quote to Borrower until Fannie Mae Confirmation for Primary Risk Mortgage Loans**

To ensure that the Borrower is quoted the correct payoff amount, including any applicable accrued interest, Prepayment Premium, late fees, or other amounts that might be owed under the terms of the Note, the Security Instrument, or the other Mortgage Loan Documents, the Servicer must not quote a final payoff amount to the Borrower.
without first obtaining Fannie Mae's confirmation of the accuracy of the Servicer's figures.

5. **Fannie Mae Confirmation of Full Prepayment Payoff Amount for Secondary Risk Mortgage Loans**

Unless the Lender’s Contract provides otherwise, Fannie Mae will not review the Servicer's payoff calculation for Secondary Risk Mortgage Loans. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes all amounts that are owed to Fannie Mae and to the Servicer.

6. **Servicer Liability**

Whether confirmed by Fannie Mae through the Payoff Calculator or the payoff calculation is performed by the Servicer, the Servicer is required to collect all amounts owing by the Borrower on a Mortgage Loan payoff. If Fannie Mae determines that Servicer has provided the Borrower incorrect information because of an error in the calculation of the payoff quote, the Servicer will be responsible for any shortfall and must remit all amounts due to Fannie Mae whether or not it has collected such amounts from the Borrower.

B. **Reporting Full Prepayment Payoff Amount**

1. **Full Prepayment Payoff Amount Received on First Business Day of Month**

Notwithstanding anything to the contrary above, any full Prepayment of a Mortgage Loan from or on behalf of a Borrower that is received by the Servicer on the first Business Day of a month will be deemed received in the prior calendar month for purposes of reporting and remitting such full Prepayment.

2. **Full Prepayment Reported through the eServicing System Due By 2nd Day of Month**

The full prepayment must then be reported electronically to Fannie Mae through the eServicing System. The report of the full payment must be transmitted in time to reach Fannie Mae by the 2nd calendar day of the month following the month of prepayment.

C. **Remitting Full Prepayment Payoff Amount**

1. **Using Pass-Through Rate to Calculate Remittance to Fannie Mae**

The Servicer must use the Pass-through Rate to calculate its principal and interest remittance to Fannie Mae. After collecting payoff proceeds, calculated in the manner
described above at the Gross Note Rate, the Servicer must subtract its Servicing Fee, calculated using a per diem rate based on the interest accrual method provided for in the Loan Documents.

2. Remittance Due on Next Business Day

Once the payoff amount is confirmed, the proceeds from a payment in full, including the Prepayment Premium (when required pursuant to the terms of the Note, as modified by any Addendum), must be remitted to Fannie Mae via the Cash Remittance System on the next Business Day following the day on which the prepayment proceeds are received. This means that the Servicer must enter drafting information into the Cash Remittance System by 4:00 p.m. Eastern Time, on the day on which the prepayment proceeds are received.

Section 210.05 Full Prepayment for Securitized Transactions (Not Applicable to PFP MBS)

A. Confirming the Full Prepayment Payoff Amount

1. Calculating the Full Prepayment Payoff Amount

To obtain Fannie Mae’s confirmation of the final payoff amount for a Securitized Mortgage Loan, the Servicer must submit a statement, detailing:

- All amounts that it has determined will be due and payable by the Borrower on the prepayment date, including:
  - the unpaid principal balance of the loan (as of the prepayment date);
  - all accrued and to-be accrued interest, broken down into the net interest portion due to Fannie Mae (calculated at the Pass-through Rate) and the portion to be retained by the Servicer as a Servicing Fee, calculated as if the payoff is occurring on the last day of the month in which the prepayment is occurring;
  - any unpaid late fees, if applicable;
  - any Prepayment Premium, if any, that is due in connection with the full prepayment specifying the respective portions due Fannie Mae, the Security certificate holder and Servicer; and
  - any other amounts due under the Note, Security Instrument, or any other Loan Document, including, if applicable, any unpaid fee due under any Collateral Agreement.

- All amounts that will be due and payable to Fannie Mae by the Servicer on the 18th of the month following the month of prepayment, including:
the unpaid principal balance of the loan;

- a full month's accrued interest, calculated at the MBS Pass-through Rate;

- any applicable Prepayment Premium broken down into the portions due to the MBS investor, the Servicer, and Fannie Mae calculated in accordance with this Guide; and

- any previously unpaid fees or other amounts owed to Fannie Mae.

2. **Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer**

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the prepayment (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae, and the MBS investor, if applicable.

3. **Fannie Mae Confirmation of Full Prepayment Payoff Amount for Primary Risk Mortgage Loans**

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies for Primary Risk Mortgage Loans. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond (in writing) to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to the Servicer from the Borrower, and will also separately confirm the amounts due to Fannie Mae from the Servicer, as well as individual items comprising such total amounts, including

- the unpaid principal balance of the Mortgage Loan;

- accrued interest due:
  - the Servicer from the Borrower, and
  - a full month's accrued interest due Fannie Mae,

- any applicable Prepayment Premium (broken down into the portions due to Fannie Mae, the Servicer, and the MBS investor), and

- any previously unpaid fees or other amounts owed to Fannie Mae.

4. **No Quote to Borrower Until Fannie Mae Confirmation for Primary Risk Mortgage Loans**

To ensure that the Borrower is quoted the correct payoff amount, including any applicable accrued interest, Prepayment Premium, late fees, or other amounts that might be owed under the terms of the Note, the Security Instrument, or the other Mortgage
Loan Documents, the Servicer must not quote a final payoff amount to the Borrower without first obtaining Fannie Mae’s confirmation of the accuracy of the Servicer's figures.

5. **Fannie Mae Confirmation of Full Prepayment Payoff Amount for Secondary Risk Mortgage Loans**

Fannie Mae will not review the Servicer's payoff calculation for Secondary Risk Mortgage Loans. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes all amounts that are owed to Fannie Mae and to the Servicer.

6. **Servicer Liability**

Whether confirmed by Fannie Mae through the Payoff Calculator or the payoff calculation is performed by the Servicer, the Servicer is required to collect all amounts owing by the Borrower on a Mortgage Loan payoff. If Fannie Mae determines that Servicer has provided the Borrower incorrect information because it quotes a final payoff amount to the Borrower prior to Fannie Mae confirmation or has erred in its calculation of the payoff quote where Fannie Mae confirmation is not provided, the Servicer will be responsible for any shortfall and must remit all amounts due to Fannie Mae whether it has collected such amounts from the Borrower.

B. **Reporting Full Prepayment Payoff Amount**

1. **Security Reporting**

By the second Business Day of the month following the month of prepayment, the Servicer must report the amount of the Prepayment Premium collected to Fannie Mae via the eServicing System in accordance with the reporting requirements provided in this Chapter.

2. **Mortgage Loan Reporting Requirements**

The Servicer must report the prepayment amount, including any applicable Prepayment Premium, to Fannie Mae by the second Business Day of the month following the month in which the prepayment occurs in accordance with the reporting requirements provided in this Chapter.

C. **Remitting Full Prepayment Payoff Amount**

1. **Using Pass-Through Rate to Calculate Remittance to Fannie Mae**

Under MBS, the Servicer must remit a full month's accrued interest (calculated at the MBS Pass-through Rate) for each month that the MBS is outstanding, even if a full or
partial prepayment occurs during that month. Any shortfall between the interest collected from the Borrower and the full month's interest that is due to Fannie Mae must be deposited in the Servicer's MBS P&I Custodial Account from the Servicer's own funds and remitted to Fannie Mae. The Servicer must also remit a full month's Guaranty Fee for each month that the MBS is outstanding, even if a full or partial prepayment occurs during that month.

2. Remittance Due on 18th Calendar Day

The Servicer must remit the prepayment amount due Fannie Mae on the 18th calendar day of the month (or the preceding Business Day if the 18th is not a Business Day) following the month in which the payoff occurs in accordance with remittance requirements contained in this Chapter.

Section 211. Partial Prepayments Not From Insurance or Condemnation Proceeds (10/17/11)

Section 211.01. Partial Prepayments Generally Prohibited

Partial prepayment of the outstanding balance of any Mortgage Loan is prohibited unless explicitly permitted in the Mortgage Loan Documents. Under certain circumstances, to the extent permitted in the Mortgage Loan Documents, the proceeds of a Letter of Credit held pursuant to an Achievement Agreement or deposits held under a Replacement Reserve Agreement or other Collateral Agreement may be applied as a partial prepayment of the Mortgage Loan.

Section 211.02. Partial Prepayment Procedures

A. Servicer’s Analysis of Loan Documents

Any request from the Borrower for permission to make a partial prepayment must be forwarded to the Servicer’s Fannie Mae Representative, along with the Servicer's analysis and recommendation. The Servicer must carefully examine the Mortgage Loan Documents to determine if partial prepayments are permitted and, if so, under what conditions and whether a Prepayment Premium is required. The Servicer's analysis of the request must include information about:

- the event or condition precipitating the prepayment request;
- the amount of principal that would be prepaid;
- the estimated Prepayment Premium, if any, that would be due in connection with the partial prepayment
• any proposed recasting of the Mortgage Loan or other modification of the repayment terms; and
• the proposed timing of the prepayment.

B. Fannie Mae Approval Required for Partial Prepayments

Unless the Loan Documents expressly permit partial prepayments, Fannie Mae's approval is required before any partial prepayment is made. If the Servicer’s Fannie Mae Representative agrees to allow or requires a partial prepayment to be made, it will advise the Servicer in writing of any specific conditions that will apply to such partial prepayment. Such specific conditions may include:

• when and how the prepayment must occur;
• whether a Prepayment Premium must be paid;
• whether the Mortgage Loan repayment terms will be altered and, if so, how the Mortgage Loan documents would have to be modified to reflect such alterations; etc.

Any decision to modify the Mortgage Loan repayment terms in connection with the partial prepayment will be made by Fannie Mae, in its sole and absolute discretion.

C. Prepayment Premium Due on Partial Prepayment

When a Prepayment Premium is required in connection with any partial prepayment, the Prepayment Premium is assessed on the amount of principal being prepaid and not on the outstanding unpaid principal balance of the Mortgage Loan calculated and verified in the same manner as is required for full prepayments.

D. Reporting and Remitting Partial Prepayments When Not Permitted in Loan Documents

Partial prepayments must be reported in the same manner as is required for full prepayments. When Fannie Mae’s approval is received, the proceeds representing the partial prepayment, including the Prepayment Premium (when required pursuant to the terms of the Loan Documents), must be remitted to Fannie Mae in the same manner and timeframe as required for full prepayments.

E. Reporting and Remitting Partial Prepayments When Permitted in Loan Documents

Fannie Mae approval is not required when the Loan Documents permit partial prepayments. Any such partial prepayments must be reported and remitted to Fannie Mae in the same manner and timeframe as is required for monthly remittances.
Section 212. Prepayments (Full or Partial) Involving Insurance Proceeds or Condemnation Awards (10/17/11)

Section 212.01. Partial Prepayments Generally Permitted

Partial prepayment of the Mortgage Loan is generally permitted for the application of the proceeds of an insurance claim or a condemnation award. Servicer must follow the requirements contained in the Loan Documents in connection with any such partial prepayment.

Section 212.02. No Prepayment Premium Required

The Borrower is not required to pay a Prepayment Premium in connection with any prepayment that occurs as a result of the application to the Mortgage Loan of insurance proceeds or condemnation award proceeds, regardless of when during the Mortgage Loan term such prepayment occurs.

Section 212.03. Reporting and Remitting Partial Prepayments

The proceeds representing the partial prepayment must be reported and remitted to Fannie Mae in the same manner and timeframe as is required for monthly remittances.

Section 213. Prepayment Premium Sharing (03/30/15)

Section 213.01. General

The Lender Contract governs over the requirements of the Guide if it specifies whether the Lender or Servicer is entitled to retain a portion of any Prepayment Premium paid by the Borrower. If the Lender Contract provides that the Lender or Servicer is entitled to retain a portion of the Prepayment Premium, then the Servicer must calculate the applicable share of the Prepayment Premium owed to the Lender or Servicer, and remit to Fannie Mae that portion of the Prepayment Premium owed to Fannie Mae or the Investor. If the Lender Contract provides that the Lender or Servicer is not entitled to retain a portion of the Prepayment Premium, then the entire Prepayment Premium must be remitted to Fannie Mae.

If the Lender Contract does not specify whether the Lender or Servicer is entitled to retain a portion of any Prepayment Premium, then the Servicer is entitled to retain a portion of any Prepayment Premium only as provided below.

The Servicer must always remit the portion of the Prepayment Premium due to the Investor and to Fannie Mae with the final Mortgage Loan payment via ACH using the Multifamily Authorization for Automatic Transfer of Funds (Form 1055), retaining the balance.
of the Prepayment Premium due the Servicer as provided above. Upon receipt, Fannie Mae will pass through the portion of the Prepayment Premium due to the Investor.

Section 213.02. Yield Maintenance Prepayment Premiums – Prepayment Occurs Before the Yield Maintenance Period End Date

A. Calculation of Total Prepayment Premium

For any prepayment that occurs before the Yield Maintenance Period End Date, the Servicer must first determine the total Prepayment Premium owing by the Borrower in accordance with the Loan Documents. The Loan Documents generally require the Borrower to pay a Prepayment Premium equal to the greater of (i) 1% of the Unpaid Principal Balance (the “Minimum 1% Prepayment Premium”), or (ii) yield maintenance.

B. Calculation of Investor’s share of Total Prepayment Premium for a Securitized Mortgage Loan

Fannie Mae does not guaranty payment of any portion of the Prepayment Premium to the Investor. The Investor only receives a share of any Prepayment Premium actually received from the Borrower. For a Securitized Mortgage Loan, the Servicer must calculate the Investor’s share of the total Prepayment Premium. The Investor’s portion is equal to the total Prepayment Premium multiplied by a ratio equal to:

\[
\frac{\text{Pass-Through Rate}}{\text{Gross Note Rate}}
\]

C. Calculation of Fannie Mae’s share of Total Prepayment Premium

For both Securitized Mortgage Loans and Cash Mortgage Loans, the Servicer must calculate Fannie Mae’s share of the total Prepayment Premium. If the Prepayment Premium is greater than the Minimum 1% Prepayment Premium, the difference between the total Prepayment Premium and the portion due to the Investor will be shared between Fannie Mae and the Servicer. Fannie Mae’s share of the total Prepayment Premium is equal to the total Prepayment Premium multiplied by a ratio equal to:

\[
\frac{\text{Guaranty Fee Rate}}{\text{Gross Note Rate}}
\]

If the total Prepayment Premium is equal to the Minimum 1% Prepayment Premium, the entire portion of the Prepayment Premium remaining after any Investor portion has been determined will be due to Fannie Mae and no portion will be due the Servicer.
D. Calculation of Servicer’s share of Total Prepayment Premium

The Servicer is only entitled to retain a portion of the Prepayment Premium if the Prepayment Premium exceeds the Minimum 1% Prepayment Premium. The Servicer’s share of the total Prepayment Premium will be equal to the total Prepayment Premium multiplied by a ratio equal to:

\[
\frac{\text{Servicing Fee Rate}}{\text{Gross Note Rate}}.
\]

Section 213.03. Yield Maintenance Prepayment Premiums – Prepayment Occurs On or After the Yield Maintenance Period End Date

A. Prepayment On or After Yield Maintenance Period End Date

The Loan Documents may provide that any full prepayment that occurs on or after the Yield Maintenance Period End Date but before a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the Maturity Date occurs), must be accompanied by a Prepayment Premium equal to a stated amount (usually 1% of the unpaid principal balance of the Mortgage Loan). Neither the Investor nor the Servicer is entitled to any portion of any Prepayment Premium paid on or after the Yield Maintenance Period End Date. The entire Prepayment Premium must be remitted to Fannie Mae.

B. Prepayment During Open Period

The Loan Documents may provide that the Borrower is not required to pay any Prepayment Premium in connection with a full prepayment made on or after a date specified in the Loan Documents (typically the last calendar day of the fourth month prior to the month in which the Maturity Date occurs).

Section 213.04. Fixed Rate Mortgage Loans with Graduated Prepayment Premiums

For fixed rate Mortgage Loans where the Loan Documents require a graduated Prepayment Premium, the Servicer is not entitled to retain any portion of the Prepayment Premium. The entire Prepayment Premium must be remitted to Fannie Mae.

Section 213.05. Prepayment Premiums for ARM Loans and Structured ARM Loans

Unless the prepayment of an ARM Loan that used Prepayment Option 1 or Prepayment Option 2, or of a Structured ARM Loan is the result of a casualty or condemnation, any prepayment made before a date specified in the Loan Documents (typically the last calendar day
of the fourth month prior to the month in which the Maturity Date occurs) must include a Prepayment Premium that will be shared between Fannie Mae and the Servicer. The Investor is not entitled to receive any portion of the Prepayment Premium for either an ARM Loan or a Structured ARM Loan. In each case, Fannie Mae’s share will be a percentage determined by the following formula:

\[
\frac{\text{Guaranty Fee}}{\text{(Guaranty Fee + Servicing Fee)}}.
\]

For example, if the Guaranty Fee is 62.5 basis points and if the Servicing Fee is 45 basis points, then Fannie Mae's share will be:

\[
\frac{62.5}{(62.5 + 45)} \text{ or } 58.14\%.
\]

The Servicer must remit the portion of the Prepayment Premium due Fannie Mae with the final Mortgage Loan payment. The Servicer may retain the balance of the Prepayment Premium.

No Prepayment Premium is due in connection with an ARM Loan with a conversion option or with a Structured ARM Loan that is converting to a fixed rate Mortgage Loan. See Part V, Chapter 5 for the prepayment terms that apply following conversion of an ARM Loan or a Structured ARM Loan to a fixed rate Mortgage Loan.

**Section 213.06. Prepayment Premium Waivers; Servicer’s Share of Prepayment Premium**

The Servicer may not waive any portion of the Prepayment Premium due and owing under the Loan Documents, except as provided in Part IVA, Section 203 in connection with a Choice Refinance Loan.

No portion of the Servicer’s share of the Prepayment Premium may be:

- waived by the Lender;
- used as a rebate to the Borrower, or any party related to the Borrower, for any purpose; or
- used for the payment of any expenses related to any loan used to refinance the Mortgage Loan.

**Section 214. Maturing Mortgage Loans/Payoffs (06/30/15)**

**Section 214.01. Balloon Mortgage Loans**

Fannie Mae expects any Borrower with a Balloon Mortgage Loan to refinance or otherwise pay off the Mortgage Loan in full on (or before) the scheduled Maturity Date. Failure
to pay off the Mortgage Loan in full on (or before) the scheduled Maturity Date is a default and puts the Borrower at risk that Fannie Mae will exercise any available remedy under the Security Instrument and the other Loan Documents. Whenever a Borrower fails to pay off a Balloon Mortgage Loan on its Maturity Date, the Servicer must notify its Fannie Mae Representative of such failure as soon as possible, and must report the balloon payment default on the Multifamily Delinquency System®. Any acceptance of a payoff amount occurring after the Balloon Mortgage Loan’s stated Maturity Date must be approved by Fannie Mae.

Section 214.02. Servicer Notification of Payoff Amount to Borrower

At least 5 days prior to the scheduled Maturity Date of the Mortgage Loan, the Servicer must advise the Borrower in writing of the amount required to pay off the Mortgage Loan in full. The Servicer must ensure that the payoff figure quoted to the Borrower is correct.

Section 214.03. Calculating and Obtaining Confirmation of Payoff Amount

A. Calculating the Full Payoff Amount

The Servicer's request for verification of the final payoff amount must be submitted to Fannie Mae at least 10 days before the scheduled Maturity Date. To obtain Fannie Mae’s confirmation of the final payoff amount, the Servicer must submit a statement, detailing all amounts that it believes will be due and payable by the Borrower on the payoff date, including:

- the unpaid principal balance of the Mortgage Loan (as of the payoff date);
- accrued interest, up to the payoff date, broken down into the net interest portion due to Fannie Mae (calculated at the Pass-through Rate) and the portion to be retained by the Servicer as a Servicing Fee;
- any unpaid late fees, if applicable; and
- any other amounts due under the Note, Security Instrument, or any other Mortgage Loan Document, including, if applicable, any unpaid fee due under any Collateral Agreement.

B. Fannie Mae Will Not Confirm Nor Is Responsible for Amounts Owing to Servicer

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the payoff (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer's payoff statement must clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae. The Servicer is solely responsible for ensuring that any payoff quote given to the Borrower includes any amounts that are owed exclusively to the Servicer, as Fannie Mae will not
reimburse the Servicer for such amounts from any of the funds that the Borrower remits to cover the amounts confirmed as being due to Fannie Mae.

C. Fannie Mae Confirmation of Full Payoff Amount

Fannie Mae will review the Servicer's figures and contact the Servicer to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond (in writing) to the Servicer's verification request. In its response, Fannie Mae will confirm the total payoff amount due to Fannie Mae, as well as the individual items comprising such total amount, including

- the unpaid principal balance of the Mortgage Loan;
- the net accrued interest due Fannie Mae;
- any applicable Prepayment Premium; and
- any previously unpaid fees or other amounts owed to Fannie Mae.

Fannie Mae also will provide any pertinent instructions for completing the payoff process, including any specific instructions that the Servicer must pass along to the Borrower with the payoff quote.

D. No Quote to Borrower Until Fannie Mae Confirmation

To ensure that the Borrower is quoted the correct payoff amount, including any applicable accrued interest, Prepayment Premium, late fees, or other amounts that might be owed under the terms of the Note, the Security Instrument, or the other Mortgage Loan Documents, the Servicer must not quote a final payoff amount to the Borrower without first obtaining Fannie Mae’s confirmation of the accuracy of the Servicer's figures.

Section 214.04. Reporting the Payoff and Remitting the Payoff Funds

A. Reporting Full Payoff Amount through the eServicing System Due By 2nd Business Day of Month

The full payoff must be reported electronically to Fannie Mae through the eServicing System. The report of the full payment must be transmitted in time to reach Fannie Mae by the 2nd Business Day of the month following the month of payoff.

B. Remitting Full Payoff Amount

1. Using Pass-Through Rate to Calculate Remittance to Fannie Mae

The Servicer must use the Pass-through Rate to calculate its principal and interest remittance to Fannie Mae. After collecting payoff proceeds, calculated in the manner
described above at the Gross Note Rate, the Servicer must subtract its Servicing Fee, calculated using a per diem rate based on a 360-day year.

2. Remittance Due on Next Business Day for Cash Mortgage Loans or Next Remittance Cycle for Securitized Mortgage Loans

After the payoff amount is confirmed, the proceeds from a payment in full, including any applicable Prepayment Premium (when required pursuant to the terms of the Note), must be remitted via the Fannie Mae Cash Remittance System:

- For Cash Mortgage Loans, on the next Business Day following the day on which the prepayment proceeds are received and the Servicer must enter drafting information into the Cash Remittance System by 4:00 p.m. Eastern Time, on the day on which the payoff proceeds are received; or
- For Securitized Mortgage Loans, the Servicer must follow the reporting and remitting procedures for monthly installment reporting and remitting.

Section 215. Post-Payoff Actions (12/9/13)

Section 215.01. Servicer Required Actions

A. General

To facilitate the return of release documents from Fannie Mae, at all times the Servicer must maintain on file with Fannie Mae a master file copy of the Custody Document Transmittal (Form 276) completed with the following information:

- the Lender’s nine digit Servicer Number;
- “MASTER FORM” entered for the Fannie Mae Loan Number;
- “Payoff” checked as the liquidation reason; and
- the Lender’s mailing address.

The completed form must be sent to: Multifamily_Ops_Servicing@fanniemae.com. If the mailing information for the Lender changes at any time, the Lender must update the master file copy of the Custody Document Transmittal (Form 276) with Fannie Mae.

B. Individual Mortgage Loan Releases

For each Mortgage Loan, upon receipt of the payoff funds from the Borrower, the Servicer must:

- refund to the Borrower any T&I escrow funds and any Replacement Reserve funds still held by the Servicer in connection with the Mortgage Loan (must be accomplished within 30 days of the payoff); and
send the following to Fannie Mae:

- if the release documents are to be sent to a different mailing address than that listed on the master file copy of the Custody Document Transmittal (Form 276) with Fannie Mae, a transaction-specific Custody Document Transmittal (Form 276), requesting Fannie Mae to return the original Note and indicating the different address to which the release documents for that specific Mortgage Loan should be sent;

- for all recorded Loan Documents (e.g., Security Instrument) that require a release, the appropriate release document for the state in which the Property is located; and

- a request to Multifamily Servicing to release any additional collateral still held by Fannie Mae in connection with the Mortgage Loan.

Fannie Mae will execute the necessary releases, and return them, along with the original Note (appropriately marked or stamped to evidence full satisfaction), to the Servicer. The Servicer must return the Note to the Borrower, file the appropriate UCC termination forms and arrange to have the release documents recorded. Fannie Mae will be responsible for returning any applicable Achievement Letter of Credit to the issuer for cancellation.

**Section 215.02. Post Payoff Document Retention Requirements**

Following its return to the Servicer of the Note and the releases for all recorded Loan Documents, Fannie Mae will forward its file for the Mortgage Loan to the Servicer. The Servicer must retain the entire Mortgage Loan Servicing File for 3 years after a Mortgage Loan payoff.

**Section 216. DUS Bond Credit Enhancement Transactions – Reporting and Remitting Requirements (06/30/15)**

The requirements of this Section are applicable to Bond Credit Enhancement Transactions only and the Servicer’s reporting, collection, and remitting of prepayments must be done in accordance with the procedures described below.

**Section 216.01. Monthly Bond Credit Enhancement Reporting**

For reporting purposes, the Servicer must segregate its DUS Bond Credit Enhancement portfolio into 2 groups:

- DUS Bond Credit Enhancement by Credit Enhancement Instrument and Collateral Agreement, or

- DUS Bond Credit Enhancement by a Security.
The Servicer must electronically submit a Credit Enhancement Activity Report (Form 4090) using the Credit Enhancement Servicing and Investor Reporting System (CESIR) for each DUS Bond Credit Enhancement Mortgage Loan and Bond each month. The date that the Credit Enhancement Activity Report is due is dependent on whether the Mortgage Loan’s monthly principal and interest payments are due on the first of the month or on the 15th of the month.

The Servicer must register to use CESIR prior to use. Information regarding registering for CESIR can be found on www.efanniemae.com.

For most DUS Bond Credit Enhancements, the monthly reporting rule is applied as follows:

- If the Mortgage Loan payments are due on the first of the month, the report is due on the fourth calendar day of the month or the next Business Day if the fourth calendar day of the month is not a Business Day; or
- If the Mortgage Loan payments are due on the 15th day of the month, the report is due on the 15th calendar day of the same month or the next Business Day if such day is not a Business Day.

The monthly report must include:

- all scheduled Mortgage Loan payments to be made by the Borrower whether or not such payments are actually made by the Borrower; and
- bond redemptions reported by the Bond Trustee for the current calendar month.

Section 216.02. Monthly Remittance Procedures

A. Monthly Remittances of Scheduled Payments to Bond Trustee

Monthly remittances to the Bond Trustee depend on the execution type for the transaction and applicable transaction requirements.

1. Standby Execution

For standby executions, the Servicer must pay the Scheduled Payments (net of the Facility Fee) to the Bond Trustee. The Servicer must make the payment to the Bond Trustee by wire transfer of same day funds on or before the 5th Bond Business Day before the day on which the bond payment is due to be made by the Bond Trustee to the bondholders. Bond Business Day is determined under the Bond Indenture for each separate Bond transaction.

2. Direct Pay Execution

For direct pay executions, the Servicer must perform the following:
a. The Servicer must pay to the Bond Trustee, by wire transfer of same day funds on the Bond Payment Date, the following components of the Scheduled Payment:

(1) the Principal Reserve Fund deposit;

(2) the periodic fees payable to the Issuer, Bond Trustee, Rebate Analyst, any Compliance Monitor, Remarketing Agent and Tender Agent and any other similar person; and

(3) any other requirement, as specified in the Reimbursement Agreement.

b. The Servicer must remit the following components of the Scheduled Payment to Fannie Mae in reimbursement of any related Advance under the credit enhancement as provided in this Section:

(1) the interest component; and

(2) any principal component which is to amortize immediately the Mortgage Loan and is not to be deposited into the Principal Reserve Fund.

c. For Direct Pay Weekly Variable Rate transactions where the Borrower is obligated to make its payments 2 Business Days prior to the 15th of each month and the bondholders must be paid on the 15th of each month, the Servicer must make its payments by wire transfer of same day funds on the 1st or 15th calendar day of each month. Other requirements may apply, as specified in the Reimbursement Agreement.

B. Replenishment of Withdrawals from the Principal Reserve Fund

If the Borrower pays the Servicer any amount to replenish a withdrawal from the Principal Reserve Fund, the Servicer shall pay such amount to the Bond Trustee not later than 2:00 p.m. Eastern Time, no later than the Business Day immediately after receipt of such monies from the Borrower.

C. Collection and Remittance of Borrower Reimbursement Obligations for Fannie Mae Advances

The Servicer must pay the following amounts to Fannie Mae:

1. The interest component of the Scheduled Payment and principal component of the Scheduled Payment which is to amortize immediately the Mortgage Loan and is not to be deposited into the Principal Reserve Fund. Such amounts reimburse Fannie Mae for the related Advance under a Credit Enhancement Instrument or Collateral Agreement.
2. Any accrued and unpaid Activity Fee.

3. Any other amounts due to Fannie Mae under the Reimbursement Agreement other than the Facility Fee.

Fannie Mae will draft such amounts so as to be received by Fannie Mae no later than the Business Day immediately after the receipt of such monies from the Borrower.

The Servicer must also collect from the Borrower and remit to Fannie Mae any other fees, expenses or additional costs due from the Borrower to Fannie Mae under the Reimbursement Agreement. Fannie Mae and/or the Bond Trustee will notify the Servicer regarding any such amounts to be invoiced by the Servicer for payment by the Borrower under the Reimbursement Agreement, the Financing Agreement or other Transaction Document.

D. Monthly Remittance of Fees to Fannie Mae

Fannie Mae will draft the Facility Fee, net of the Servicer's Servicing Fee each month. Fannie Mae will draft such amounts 4 calendar days after such amount is scheduled to be paid by the Borrower under the applicable Transaction Document. If the fourth calendar day is not a Business Day, then such draft will be made on the next Business Day.

E. Notice and Collection of Other Fees and Expenses

At the written request of the Bond Trustee or if the Reimbursement Agreement or the Financing Agreement requires the Borrower to make such payments through the Servicer, the Servicer will invoice the Borrower for any fees and expenses payable by the Borrower to the (1) Issuer, (2) Bond Trustee, (3) Rating Agency, (4) Remarketing Agent, (5) Rebate Analyst, (6) Compliance Monitor or (7) Custodian.

The Servicer’s invoice must require the Borrower to pay all such amounts to the Servicer not later than the earlier of ten days following the receipt of the invoice or the Business Day such amounts become due. The Servicer will remit all such payments received from the Borrower to the Bond Trustee, the Rating Agency, or Custodian, as applicable, and, if to the Rating Agency or Custodian, with notice to the Bond Trustee of such payment.

Section 216.03 Prepayments – General Introduction

When a Borrower prepays a Mortgage Loan in a DUS Bond Credit Enhancement in whole or in part, the bonds also will be prepaid or redeemed in whole or in part on a corresponding basis. This is the starting point for the analysis of the obligations of the Borrower to account for any fees payable on account of the prepayment or redemption.
A. Bond Redemption Premiums Payable to Bondholders

All relevant rules regarding bond redemption premiums will be contained in the related Bond Indenture. The Borrower is obligated to pay any bond redemption premium. Fannie Mae does not provide credit enhancement for the bond redemption premium.

Not all types of bond redemptions are subject to redemption premiums and the Servicer must consult the related Bond Indenture documentation to determine whether a redemption premium is due. As a general rule, only bond redemptions initiated voluntarily or optionally by the Borrower will potentially have a redemption premium. Mandatory redemptions almost never have a redemption premium. Mandatory redemptions include redemptions paid from condemnation proceeds and insurance proceeds from casualty losses.

1. Variable Rate Bond Redemption

Weekly variable rate bonds may typically be redeemed at any time, or at least on any bond interest payment date, without restriction or redemption premium to the bondholders subject to the terms of the related Bond Indenture.

2. Fixed Rate Bond Redemption

Fixed rate bonds are typically restricted from optional or voluntary redemption by the Borrower for a specific period following the original bond issuance date, known as a lockout period. A lockout period may approximate 10 years from the initial bond issuance. Following the expiration of the lockout period, any voluntary redemption during the subsequent 3 to 5 year period typically requires the payment of a redemption premium to bondholders.

NOTE: Most transactions require the Borrower to pay the bond redemption premium with money that is not subject to being treated as a Voidable Preference under applicable bankruptcy and insolvency laws. This usually means the redemption premium cannot come from regular resources of the Borrower. The Bond Indenture must be consulted for requirements applicable to sources of payment of the Bond Redemption Premium and legal counsel should be consulted.

B. Termination Fee or Prepayment Premium Payable to Fannie Mae

Any Prepayment Premium payable to Fannie Mae on the credit enhancement is separate and distinct from any redemption premium payable to bondholders. This is true for all executions: Direct Pay, Standby and MBS.

In most instances, Fannie Mae requires the Borrower to pay a Prepayment Premium (or “Termination Fee” if required in the applicable documents) if the prepayment occurs within a certain number of years after original delivery of Fannie Mae’s credit enhancement. In earlier
Bond Credit Enhancement transactions, the premium will be called a Prepayment Premium and will be addressed in the Note. In later transactions, the premium will be called a Termination Fee and will be addressed in the Reimbursement Agreement.

C. Termination When No Prepayment Occurs; Weekly Variable Rate Transactions

In DUS Variable Rate Credit Enhancements, there is the possibility that neither the Mortgage Loan nor the bonds are actually being prepaid, but only that the Borrower is replacing Fannie Mae as the provider of the credit enhancement and liquidity, terminating Fannie Mae’s involvement in the transaction. For purposes of this section, that too is treated as a prepayment. In the event that the Mortgage Loan is being prepaid or Fannie Mae is being replaced as credit enhancer, the result is that the credit enhancement is being terminated. In recent years, to take this into account, the general term “Termination” has been used to refer to the events and “Termination Fee” to refer to the fee which may be payable on account of those events.

The Servicer must remit any Termination Fee due Fannie Mae in accordance with remittance requirements contained below in this Section by 2:00 p.m. Eastern Time on the next Business Day following the day on which the Borrower’s termination of Fannie Mae’s credit enhancement and liquidity is effective.

Section 216.04 Prepayments – Processing

A. General

The Note requires the Borrower to give advance notice of a full or partial prepayment to the Servicer, the Bond Trustee, and, if a DUS Variable Rate Credit Enhancement, the Remarketing Agent. Any partial prepayment must be in an amount corresponding to an authorized denomination of the Bonds. Typically, Fannie Mae will require its consent to an optional redemption of Bonds.

The Servicer must always keep in mind that the date on which the Borrower must transfer money to the Servicer to initiate a prepayment may not be the day that the transfer of funds is treated as a prepayment under the governing documents. For example, under some documents the Borrower must make the prepayment not later than the last Business Day before the day the Bond Trustee, under the Bond Indenture, must have received funds for redemption of the Bonds. The Mortgage Loan prepayment will not be recognized until the Bonds are actually redeemed or deemed paid and no longer under the requirements of the Bond Indenture.

B. Prompt Notice of Intended Prepayment

The Servicer must promptly notify Fannie Mae (Multifamily Asset Management) and the Bond Trustee in writing upon receiving notice from the Borrower of a planned prepayment. If the prepayment does not occur on such date, the Borrower may not subsequently prepay the
Mortgage Loan in full without first giving the Servicer and all other parties to whom notice is required, a new notice of intent to prepay in accordance with the Loan Documents.

C. Critical Path Due Dates

The Servicer must ensure that the final prepayment amount quoted to the Borrower prior to prepayment is correct. Accordingly, before the Servicer advises the Borrower of the final prepayment amount, the Servicer must verify such amount with the Bond Trustee and Fannie Mae.

1. No less than 10 days prior to the scheduled prepayment date, the Servicer must obtain the Bond Trustee’s written confirmation of all amounts due and payable in connection with the prepayment.

2. No less than 10 days prior to the scheduled prepayment date, and after verifying amounts due on the Bonds with the Bond Trustee, the Servicer must request verification of the full or partial prepayment amount from Fannie Mae.

3. No less than 5 days prior to the day the Borrower is required to initiate the prepayment, the Servicer must advise the Borrower in writing of the full amount necessary to make the prepayment.

NOTE: The day the Borrower is required to initiate the prepayment will be before the day the bonds are to be redeemed.

4. For weekly variable rate bonds, immediately following the last day on which interest is determined on the Bonds before the scheduled redemption date of the bonds, the Servicer must re-verify the amount the Borrower must pay for the prepayment. The Servicer must immediately advise the Borrower of any correction required by the re-verification.

The Servicer should note that the transaction documents do not uniformly address the redemption premium, if any, payable to Bondholders and Prepayment Premium or termination fee, if any, payable to Fannie Mae on account of a prepayment of the Mortgage Loan. In some instances, the fee maintenance Prepayment Premium set out in the Note will be payable to Fannie Mae. In other instances, the Prepayment Premium payable under the Note must be remitted to the Bond Trustee for payment to bondholders as a redemption premium. In this case, the Borrower may be required to pay a Termination Fee to Fannie Mae pursuant to the Reimbursement Agreement. The Servicer must be alert to these requirements.

D. Fannie Mae’s Confirmation Required

To obtain Fannie Mae’s confirmation of the prepayment amount, the Servicer must submit a statement detailing the following:
1. the Fannie Mae Mortgage Loan number(s) and bond number(s), the Property name and address and the expected prepayment date;

2. all amounts that it has determined (and for such amounts due the Bondholders, confirmed with the Bond Trustee) will be due and payable by the Borrower on the prepayment date, including:
   (a) the full or partial principal prepayment (as of the prepayment date) of the Note, separately specifying any amounts in the Principal Reserve Fund expected to be applied to principal;
   (b) accrued interest up to but not including the date of prepayment of the Note;
   (c) any unpaid late fees (if applicable);
   (d) any Prepayment Premium or Termination Fee required to be paid to the Bondholders or Fannie Mae, respectively, under the terms of the Note, the Financing Agreement, the Indenture or the Bonds;
   (e) any termination fee payable to Fannie Mae pursuant to the Reimbursement Agreement;
   (f) any other amounts due under the Loan Documents; and
   (g) all other amounts due upon a redemption of Bonds under the Bond Documents, including any interest required to cover the gap between Mortgage Loan and Bond prepayment for which an escrow or collateral is not already provided. (The Servicer must request this information from the Bond Trustee.)

3. written confirmation from the Bond Trustee of all amounts due the Bondholders.

4. all amounts that will be due and payable to Fannie Mae on the day as required by this Section following prepayment, including:
   (a) Credit Enhancement Fee and Liquidity Fee;
   (b) any previously unpaid fees or other amounts owed to Fannie Mae;
   (c) any applicable Prepayment Premium or Termination Fee that is due, broken down into the portions due to the Servicer and Fannie Mae.
The Prepayment Premium or Termination Fee is a percentage (as specified in the Note or Reimbursement Agreement) multiplied by the unpaid principal balance of the Mortgage Loan after crediting the scheduled payment due on the date regular mortgage loan payments are due (in some transactions, the first of the month and in others, the 15th of the month) in which a prepayment takes place.

Fannie Mae’s share of the Prepayment Premium or Termination Fee will be a percentage determined by dividing the sum of the Credit Facility Fee and the Liquidity Fee by the sum of the Credit Facility Fee, Liquidity Fee and the Servicing Fee.

No Prepayment Premium or Termination Fee is due in connection with an application of insurance proceeds or condemnation awards, a monthly deposit to the Principal Reserve Fund, a redemption of Bonds from amounts transferred from the Principal Reserve Fund to a redemption account, a reduction and amortization of the Mortgage Loan as a result of a Bond redemption, or an adjustment to a Reset Rate or a Fixed Rate.

For New Construction/Substantial Rehabilitation Mortgage Loans, other prepayment criteria may apply depending on the transaction structure.

Fannie Mae is not responsible for confirming any amounts owed to the Servicer at the time of the prepayment (e.g., any administrative fees due for services performed by the Servicer under a Collateral Agreement); however, the Servicer’s payoff statement should clearly denote any such amounts so that Fannie Mae can distinguish them from amounts due exclusively to Fannie Mae and the Bond Trustee.

Fannie Mae will review the Servicer’s figures and contact the Servicer to reconcile any discrepancies. Upon completion of its review and any necessary reconciliation, Fannie Mae will respond to the Servicer’s verification request in writing. In its response, Fannie Mae will confirm the total payoff amount due to the Servicer from the Borrower, and will also separately confirm the amounts due to Fannie Mae from the Servicer, as well as individual items comprising such total amounts.

It is the Servicer’s responsibility to prepare lien release documentation.

Section 216.05 Prepayments: Prepayment Reporting

The Servicer must report the prepayment amount, including any applicable Prepayment Premium or Termination Fee due Fannie Mae and/or any redemption premium due the bondholders, to Fannie Mae in accordance with the reporting requirements contained in Section 216.01 of this Chapter. The date the report is due depends on the execution type of the underlying transaction.
1. If the Mortgage Loan payments are due on the first of the month, the report is due on the fourth calendar day of the month in which the prepayment occurs, or the next Business Day if the fourth is not a Business Day.

2. If the Mortgage Loan payments are due on the 15th of the month, the report is due on the 15th of the month or the next Business Day if such day is not a Business Day.

**Section 216.06 Prepayments: Remittances**

The Servicer must remit any Prepayment Premium and/or Termination Fee due Fannie Mae by 2:00 p.m. Eastern Time, on the next Business Day following the day on which the Borrower’s prepayment is received.

Depending on the execution and transaction type, the Servicer must also be concerned with invoicing, collecting and remitting the principal amount of the Mortgage Loan to be prepaid. In all cases, the Servicer must invoice and collect the principal amount being prepaid from the Borrower. No prepayment of Direct Pay Facilities will be allowed until Fannie Mae receives the necessary funds from the Borrower.

Any prepayment of principal on any Mortgage Loan received by the Servicer shall be paid, as follows:

1. **Standby Execution:** Prepayments shall be remitted to the Bond Trustee not later than the Bond Business Day immediately after the date of receipt such funds by the Servicer, or

2. **Direct Pay Execution:** Prepayments shall be remitted to Fannie Mae on the same day as the Fannie Mae Advance to the Bond Trustee funding the corresponding bond redemption associated with the prepayment.

**Section 216.07. Reporting on Delinquency Status**

The Servicer must electronically submit to Fannie Mae using the Multifamily Delinquency Early Warning System (DEWS), or any successor system selected by Fannie Mae to do such reporting, the monthly delinquency status of the Mortgage Loan on the 17th calendar day of the month. If the 15th falls on a holiday or weekend, the System is available the next Business Day. The Servicer must plan around this one day window period for the purpose of reporting delinquencies. This rule applies to all execution and transaction types for DUS Bond Credit Enhancement.
Section 217. Mezzanine Loan Reporting and Remitting
(10/17/11)

NOTE: Except as otherwise required below, the reporting and remitting requirements for Cash Mortgage Loans provided in this Chapter, apply to Mezzanine Loans.

Section 217.01. Remitting DUS Plus Mezzanine Loans

For the DUS Plus Mezzanine Loan, the Servicer is required to remit to Fannie Mae via the Cash Remittance System. On each remittance date the amount representing principal and interest (adjusted to the Pass-Through Rate) actually collected from the Mezzanine Borrower must be remitted. The initial remittance date for any DUS Plus Mezzanine Loan is the 18th day of the month following the month in which the DUS Plus Mezzanine Loan is purchased, with monthly remittances due on the 18th day of each month thereafter.

For each DUS Plus Mezzanine Loan, the principal distribution amount remitted must include the sum of:

- the principal portion actually collected from the Mezzanine Borrower of the monthly installment due during the period beginning on the second day of the month preceding the month in which a remittance date occurs and ending on the first day of the month in which a remittance date occurs; and
- any unscheduled principal recovery collected on a DUS Plus Mezzanine Loan during the month preceding the month in which a remittance date occurs.

The interest distribution amount remitted includes the interest portion of the monthly installment (that portion actually collected from the Mezzanine Borrower), adjusted to the Pass-Through Rate, due on the first day of the month in which a remittance date occurs or due at any time (other than the first day) during the preceding month.

The Servicer must remit funds collected from the Mezzanine Borrower even if they do not represent a full payment. The Servicer may not deduct monthly Servicing Fees until the entire monthly payment has been collected from the Mezzanine Borrower.

The Servicer is not required to remit to Fannie Mae on the remittance date any amounts representing principal and interest that have not been received from the Mezzanine Borrower and are, therefore, delinquent. Any delinquent payment received after the 18th calendar day of the month in which it is due must be remitted to Fannie Mae by 1:00 p.m. ET within 24 hours of its receipt.
Section 217.02. Payoffs

For DUS Plus Mezzanine Loans, proceeds for payments-in-full, including any applicable repayment fees, must be remitted directly to the mezzanine investor within 24 hours after receipt by the DUS Servicer. The full payment must be reported to Fannie Mae by the second Business Day of the month following the month in which the prepayment is received in accordance with Part V of this Guide.

Section 218. Defeasance (10/17/11)

Section 218.01 Mortgage Loan Documents Must Permit Defeasance

A Borrower may elect to defease its Mortgage Loan only if the Loan Documents permit defeasance. If the Borrower’s Mortgage Loan Documents do not permit defeasance, defeasance of the Mortgage Loan is not permitted.

Section 218.02 Borrower’s Election to Defease

Prior to the Mortgage Loan’s Maturity Date and during the Mortgage Loan's Defeasance Period, the Borrower may defease the entire outstanding balance of the Mortgage Loan in accordance with the applicable terms and conditions of the Borrower's Loan Documents and the provisions of this Section.

Section 218.03 Defeasance Option Procedures

To accomplish the defeasance, the following procedures must be followed:

A. Defeasance Documents

Servicer must obtain the most current Defeasance documents from the Fannie Mae website. The Defeasance documents consist of the Defeasance Notice (Form 4622) and other closing documents required by Fannie Mae in order for the defeasance to occur.

B. Defeasance Notice

The Servicer must complete the Defeasance Notice (Form 4622) after verifying the Mortgage Loan is eligible for defeasance and obtaining from the Borrower the date on which the Borrower desires to consummate the Defeasance. The Defeasance Close Date may not be more than 45 calendar days nor less than 30 calendar days after the date on which the Defeasance Notice is received by the Servicer. The Servicer must use the Defeasance Calculator application on the Fannie Mae website to estimate the Defeasance Deposit and the estimated Defeasance Deposit must be inserted in the appropriate box in the Defeasance Notice. The information on the Defeasance Notice will not be final until it is confirmed by Fannie Mae. Until then, the
Defeasance Deposit and other information are estimates. The Defeasance Notice will specify (a) whether a Fannie Mae debt instrument will be offered for use as the substitute collateral and, if not, that U.S. Treasury Securities will be the substitute collateral; and (b) whether the successor entity will be designated by Fannie Mae or Borrower, and (c) the amount of the Defeasance Commitment Fee.

To be effective, the Borrower must execute and send the Defeasance Notice to the Servicer so that the Servicer receives the Defeasance Notice no earlier than 11:00 a.m. and no later than 3:00 p.m. ET on a Business Day.

The Servicer must then sign and execute the Defeasance Notice and fax the Defeasance Notice and a copy of the Note to be defeased to its Fannie Mae Representative.

Fannie Mae must receive the fax by 5:00 p.m. ET on the same day that the Defeasance Deposit was calculated for verification by Fannie Mae.

C. Defeasance Commitment Fee

A Defeasance Commitment Fee equal to 1% of the scheduled balance of the Mortgage Loan as of the Defeasance Close Date, must be paid by the Borrower to the Servicer no later than the date and time when the Servicer receives the executed Defeasance Notice from the Borrower. The Servicer must wire the Defeasance Commitment Fee to Fannie Mae within 24 hours after receipt of the Borrower's executed Defeasance Notice.

D. Verification of the Defeasance Notice

Fannie Mae will verify the Mortgage Loan information contained in the Defeasance Notice as well as the Mortgage Loan's eligibility for defeasance. After verification and within two (2) Business Days after the initial receipt of the Defeasance Notice from the Servicer, Fannie Mae will sign the Defeasance Notice and fax it back to the Servicer along with an Exhibit that details the monthly cash flows of the Fannie Mae debt instrument that will replace the Property as collateral for the Mortgage Loan.

The Servicer will then fax the verified Defeasance Notice to the Borrower on the same day that the Servicer receives the verified Defeasance Notice from Fannie Mae. In the event that Fannie Mae made changes to the Defeasance Notice, the Borrower must initial the changed portions of the Defeasance Notice and fax it back to the Servicer on that same day. The Servicer must then immediately fax the Borrower-initialed Defeasance Notice to Fannie Mae.

If the Servicer does not

- receive the Defeasance Commitment Fee; and
- provide confirmation of the Defeasance Notice to the Borrower,
then the Borrower's right to obtain Defeasance pursuant to that Defeasance Notice shall terminate. If the Borrower still wishes to defease the Mortgage Loan, the Borrower must submit a new Defeasance Notice and repeat the process outlined above.

E. Substitute Collateral

On or before the Defeasance Close Date, the Borrower must deliver to the Servicer a Defeasance Pledge Agreement (Form 4529), creating a perfected security interest in the substitute collateral in favor of Fannie Mae.

F. Assignment and Assumption

The Borrower must assign all its obligations and rights under the Note, together with the substitute collateral, to a successor entity designated by Fannie Mae or, if not so designated by Fannie Mae, designated by Borrower and acceptable to Fannie Mae. The Borrower and the successor entity shall execute and deliver to the Servicer a Defeasance Assignment and Assumption Agreement (Form 4528).

G. Closing Documents

The Servicer must deliver to Fannie Mae by no later than 10 a.m. ET, five (5) Business Days before the Defeasance Close Date, the following documents:

- a Borrower's Counsel Opinion Letter (Form 4550.DEF) affirming:
  - that Fannie Mae has a valid and perfected lien and security interest in the Substitute Collateral;
  - that the defeasance is not subject to avoidance under any applicable federal or state laws;
  - that, if the Note is held by a REMIC Trust, then the defeasance has been effected in such a way that does not adversely affect the REMIC Trust; and
  - such other opinions, certificates, documents or instruments as Servicer may reasonably request;
- the Defeasance Assignment and Assumption Agreement (Form 4528); and
- the Defeasance Pledge Agreement (Form 4529).

Transmittal of these documents shall be accompanied by a completed Multifamily Defeasance Transmittal Form (Form 4631).

H. Amounts Payable by Borrower

On or before the Defeasance Close Date, the Borrower must pay to the Servicer an amount equal to the sum of:
the next scheduled principal and interest payment due under the Note;

all other sums then due and payable under the Note, the Security Instrument and any other Loan Document; and

all costs and expenses incurred by the Servicer in connection with the defeasance, including any out-of-pocket fees and disbursements of the Servicer's legal counsel.

I. Defeasance Deposit

If a Fannie Mae investment security will be the substitute collateral, then, on or before 3:00 p.m. ET on the Defeasance Close Date, the Borrower must pay the Defeasance Deposit (reduced by the Defeasance Commitment Fee) to the Servicer to be used by the Servicer, as the Borrower's agent, to purchase the Fannie Mae Investment Security.

The Borrower or Closing Agent must wire the Defeasance Deposit to Servicer by 3:00 p.m. ET on the Defeasance Closing Date. The Servicer must wire the Defeasance Deposit (reduced by the Defeasance Commitment Fee) to Fannie Mae for receipt by 5:00 p.m. ET on the Defeasance Closing Date.

J. Release

Upon the Borrower's compliance with the Defeasance requirements, the Property will be released from the lien of the Security Instrument. Upon release of the Property, the Note will be secured by the pledge of the Substitute Collateral.

K. Fannie Mae Security Liquidated Damages

If the Borrower timely pays the Defeasance Commitment Fee and the Servicer and the Borrower timely transmit a signed facsimile copy of the Defeasance Notice, but the Borrower fails to consummate the defeasance, Fannie Mae shall have the right to retain the Defeasance Commitment Fee as liquidated damages for the Borrower's default and, subject to the terms and conditions of the Note, the Borrower shall be released from all further obligation to defease the Note under the given Defeasance Notice.

L. Third-Party Costs

In the event that the Defeasance is not consummated on the Defeasance Closing Date for any reason, the Borrower must reimburse the Servicer for all third-party costs and expenses incurred by the Servicer in its reliance on the Defeasance Notice executed by the Borrower, within five (5) Business Days after the Borrower receives a written demand for this reimbursement.
M. Post Defeasance Closing Date

Fannie Mae will transfer the defeased Mortgage Loan from the Servicer's servicing portfolio effective on the first day of the second month following the Defeasance Closing Date. The Servicer will be required to report and remit payments for the next scheduled principal and interest payment collected as part of the Defeasance Closing. Thereafter, the Servicer will no longer be required to perform other servicing requirements for the defeased Mortgage Loan. Beginning on the 18th calendar day of the second calendar month after the Defeasance Closing Date (or the next Business Day if such day is not a Business Day) until the maturity of the Mortgage Loan, the Servicer will receive the remaining scheduled servicing fee for the Mortgage Loan minus five (5) basis points provided the Authorization for ACH Remittance (Form 4630) has been submitted.

Section 219. Delinquency Reporting and Certification (06/30/15)

On the 17th calendar day of each month, Servicers must take the following actions with respect to Mortgage Loans:

- Report all delinquent Mortgage Loans to Fannie Mae using the Delinquency Early Warning System ("DEWS"), which Servicers may access through the eServicing System. Delinquency reporting must include delinquencies for Mortgage Loans on Bond Credit Enhancements, even if the Servicer also elects to report these delinquencies through CESIR.

- Certify as to the delinquency status of all Mortgage Loans. If a Servicer’s Mortgage Loan portfolio does not include any delinquent Mortgage Loans, the Servicer must certify to that effect.

Prior to the 17th calendar day of each month, Servicers may use the “Preliminary” Case Status indicator to set up initial delinquency cases in DEWS.

On the 17th calendar day of each month, Servicers must change all "Preliminary" Case Status indicators to "Open" for all Mortgage Loans still delinquent or delete remaining initial cases for all Mortgage Loans that have cured. No “Preliminary” Case Status cases can remain as of the 17th calendar day of each month.

If the 17th calendar day of a month falls on a weekend or holiday, the Servicer must report and certify on the next Business Day.

Servicers must complete the “comments section” in each report with important additional information regarding the delinquent Mortgage Loan including, at a minimum, the following:

- the Servicer’s attempts to contact the delinquent Borrower;
- the cause for the missed payment(s);
- whether payment is expected before the end of the month;
the likelihood of the Borrower making the next month’s payment;
if the payment will not be made before the end of the month of default, whether the Borrower will voluntarily turn over the monthly net operating income of the Property;
the willingness of the Borrower to work with the Servicer to resolve the delinquency; and
whether the Mortgage Loan is being Special Serviced by Fannie Mae's Special Asset Management (SAM) group (Primary Risk Mortgage Loans) or the Servicers' Special Servicing group (Secondary Risk Mortgage Loans).

Servicers must update at least once per week all delinquency reports with an “Open” status indicator.

**Section 220. Reporting Collateral Balances in Custodial Accounts (07/15/16)**

Servicers must report, on a quarterly basis, the balances of Mortgage Loan collateral held by Services in their Custodial Accounts using Collateral Submission Report (Form 4813). Collateral balances that must be included in the quarterly reporting include balances for all Custodial Accounts whether the collateral is held as cash, securities or letters of credit.

**Section 220.01 P&I Custodial Accounts**

Except as noted below in Section 220.04, balances in P&I Custodial Accounts are excluded from this reporting requirement.

**Section 220.02 Letters of Credit as Collateral**

Balances for any original Letters of Credit held by the Servicer must be reported. Balances for any original Letter of Credit held by Fannie Mae are not required to be reported.

**Section 220.03 Report on Fair Value Basis**

If the form of collateral is securities or Letters of Credit, Servicers must report the balances on a fair value basis (the price that would be received to sell an asset in a transaction between market participants).

**Section 220.04 What to Report**

Collateral that must be reported using the Collateral Submission Report (Form 4813) are:
- Short Term
Any Replacement Reserves or repair escrows; or
insurance proceeds held pending repair or damage to the Property; or
condemnation proceeds received in a condemnation action related to the Property.

- Long Term
  - any operating deficit or debt service reserve; or
  - Net Cash Flow (NCF) sweeps – to the extent NCF exceeds monthly principal and interest remitted to Fannie Mae in the ordinary course.

- Balances in any T&I Custodial Account

- Other
  - any other escrow, collateral or achievement funds governed by an agreement with the Borrower;
  - any monies held in a P&I Custodial Account pending rollover of a DMBS;
  - any holdback of Mortgage Loan proceeds; or
  - any tenant security deposits held by the Servicer.

Section 220.05 When to Report

The Collateral Submission Report (Form 4813) must be submitted to Servicer’s Fannie Mae Representative within thirty (30) days after the end of each calendar quarter.

Section 221. Internal Revenue Service Reporting Requirements (10/17/11)

Section 221.01 What to Report

The Servicer must comply with Internal Revenue Service reporting requirements for:
- reporting the receipt of $600 or more of interest payments from any Borrower who is a natural person (IRS Form 1098);
- filing Statements for Recipients of Miscellaneous Income (IRS Form 1099-MISC) to report payments of fees and related expenses to attorneys and other third parties in connection with foreclosure or liquidation proceedings in connection with a Mortgage Loan and the related Property;
- filing notices of Acquisition or Abandonment of Secured Property (IRS Form 1099-A) to report the acquisition of a Property by foreclosure or acceptance of a deed-in-lieu or by a Borrower’s abandonment of a property; and
filing notices of Cancellation of Debt (IRS Form 1099-C) to report the cancellation of any part of a Borrower’s indebtedness.

Should the Internal Revenue Service change the reporting requirements in connection with any of IRS Form 1098, IRS Form 1099-MISC, IRS Form 1099-A or IRS Form 1099-C, the Servicer must comply with those changed reporting requirements, notwithstanding anything to the contrary contained in this Chapter. The Servicer should contact Fannie Mae if it believes any portion of this Chapter to be in conflict with such Internal Revenue Service reporting requirements.

**Section 221.02 Filing IRS Form 1099-MISC**

The Servicer must report all attorney (or trustee) fees paid by the Servicer to Servicer-retained attorneys or trustees or to Fannie Mae-retained attorneys or trustees for handling foreclosure proceedings, by filing Form 1099-MISC (Miscellaneous Income) with the Internal Revenue Service and other parties. This form must be filed in the Servicer's name, using its Internal Revenue Service tax identification number.

If the Servicer pays for any expenses authorized by Fannie Mae for the maintenance, repair, or marketing of an REO Property, or when the Servicer pays directly any business that is not a corporation for recurring maintenance costs, minor repair costs, or routine costs in connection with an REO Property, the Servicer must report such payments to the Internal Revenue Service. To accomplish this, the Servicer must prepare an IRS Form 1099-MISC (Miscellaneous Income) for the appropriate tax year and submit it to the Internal Revenue Service and to the individual payee. This form must be filed in the Servicer's name, using its Internal Revenue Service taxpayer identification number.

**Section 221.03 Notifying the Internal Revenue Service about Abandonments or Acquisitions (IRS Form 1099-A)**

A. When Required

The Internal Revenue Service requires that information returns be filed when Fannie Mae (or a third party) acquires an interest in a Property in full or partial satisfaction of the Mortgage Loan or when Fannie Mae or the Servicer has reason to know that a Property has been abandoned. The Servicer must file these notices on Fannie Mae's behalf, using IRS Form 1099-A (Acquisition or Abandonment of Secured Property), for all applicable Mortgage Loans (including Mortgage Loan participations if Fannie Mae's percentage ownership of such Mortgage Loan is 50% or greater).

The Servicer must satisfy the reporting requirements for the “owner of record” (instead of on Fannie Mae's behalf) when the Servicer purchased a delinquent Mortgage Loan from Fannie Mae before the Property was acquired by the Servicer in full or partial satisfaction of the Mortgage Loan.
For purposes of filing these reports:

- Fannie Mae (or the “owner of record”) acquires an interest in the Property when any redemption period that follows a foreclosure sale ends without redemption rights being exercised (or when Fannie Mae accepts a deed-in-lieu of foreclosure);
- A third party acquires an interest in the Property at the foreclosure sale; and
- Abandonment occurs when Fannie Mae or the Servicer has “reason to know” from “all facts and circumstances concerning the status of the Property” that the Borrower intended to discard or has permanently discarded the Property from use. The Servicer, however, will have an additional three months before its reporting obligation arises if the Servicer expects foreclosure proceedings to begin within the three months after determination that abandonment has occurred.

After an event that triggers a reporting requirement occurs, IRS Form 1099-A must be filed on or before February 28 (or March 31 if filing electronically) of the year following the calendar year in which the event occurred. The Servicer also must furnish the Borrower with an information statement on or before January 31 of that year. The requirement for notifying the Borrower can be satisfied by sending Copy B of a completed IRS Form 1099-A to the Borrower's last known address. When the form is filed on Fannie Mae's behalf, it must show Fannie Mae's name, address, and federal identification number (52-0883107), and include a legend stating that the information is being reported to the Internal Revenue Service. If it is filed by the Servicer on its own behalf or for the “owner of record,” the name, address, and identification number of the Servicer or owner of record, respectively, must be provided instead.

B. Preparing IRS Form 1099-A

The Servicer is responsible for completing the IRS Form 1099-A accurately, for filing it with the Internal Revenue Service, and for providing the information to the Borrower and to Fannie Mae by the required dates. If the Internal Revenue Service penalizes Fannie Mae because a Servicer failed to file a return or filed an incorrect return or late return, Fannie Mae will require the Servicer to reimburse Fannie Mae for any penalty fees the Internal Revenue Service assesses (unless the Servicer can document that it met the filing requirements).

Information that must be reported on IRS Form 1099-A includes:

- the Borrower's taxpayer identification number (the Social Security number if the borrower is a natural person);
- the date of acquisition of an interest in the Property or the date the Servicer acquired knowledge of the abandonment;
- the outstanding unpaid principal balance of the Mortgage Loan;
- a general description of the Property; and
whether the Borrower is personally liable for the debt and, if personally liable, the fair market value of the Property at the time of acquisition.

Section 221.04 Notifying the Internal Revenue Service about Cancellations of Indebtedness (IRS Form 1099-C)

A. When Required

The Internal Revenue Service requires certain mortgage holders, including Fannie Mae, to file information returns when $600 or more of a Mortgage Loan is cancelled. Except as provided below in Section 221.04.C., the Servicer must file these returns on Fannie Mae's behalf, using IRS Form 1099-C, for all applicable Mortgage Loans (including Mortgage Loan participations if Fannie Mae's percentage ownership of such Mortgage Loan is 50% or greater). If, in the same calendar year, a Mortgage Loan is canceled in connection with a foreclosure or abandonment of secured property, it is not necessary to file both Form 1099-A and Form 1099-C for the same Borrower. Only Form 1099-C need be filed, and the Form 1099-A filing requirement for the Borrower will be met by completing boxes 4, 5, and 7 on Form 1099-C.

B. Determining When a Debt Is Cancelled

A debt is cancelled (in whole or part) when any of the following occur:

- discharge in bankruptcy under Title 11 of the U.S. Code;
- receivership, foreclosure, or similar federal or state court proceeding makes the debt unenforceable;
- the statute of limitations applicable to collecting the debt expires (if so determined by a court and any appeal period has expired), or expiration of the statutory period for filing a claim or beginning a deficiency judgment proceeding;
- foreclosure remedies by law end or bar Fannie Mae’s right to collect the debt (e.g., foreclosure by exercise of the “power of sale” in the Security Instrument);
- probate or similar proceeding cancels or extinguishes the debt;
- Fannie Mae and the Borrower agree to cancel the debt at less than full consideration;
- a decision or defined policy of Fannie Mae causes collection activity to be discontinued and the debt to be cancelled; or
- expiration of a “non-payment testing period”.

The Internal Revenue Service presumes that a debt is cancelled during a calendar year if no payment has been received on the Mortgage Loan during a period (the “non-payment testing period”) of 36 months, plus the number of calendar months when collection activity was precluded by a stay in bankruptcy or similar bar under state or local law. The presumption may be rebutted, however, if there has been significant, bona fide collection activity at any time.
during the calendar year, or if facts and circumstances, existing as of January 31 of the calendar year following expiration of the 36-month period, indicate that the indebtedness has not been discharged.

C. Preparing IRS Form 1099-C

The Servicer is responsible for completing the Cancellation of Debt (IRS Form 1099-C) accurately, and for filing it with the Internal Revenue Service and providing the information to the Borrower and to Fannie Mae by the required dates. The form must be filed on or before February 28 (or March 31 if filing electronically) of the year following the calendar year in which the discharge of indebtedness occurs.

If the Internal Revenue Service penalizes Fannie Mae because the Servicer failed to file a return or filed an incorrect or late return, Fannie Mae will require the Servicer to reimburse Fannie Mae for any penalty fees the Internal Revenue Service assesses (unless the Servicer can document that it met the filing requirements).

The Servicer also must furnish the Borrower with an information statement before January 31 of that year. The requirement for notifying the Borrower can be satisfied by sending Copy B of a completed IRS Form 1099-C (or a substitute statement that complies with Internal Revenue Service requirements for substitute forms) to the Borrower's last known address, and the Servicer must send Copy C to those states that require it. When the form is filed on Fannie Mae's behalf, it must show Fannie Mae's name as the “Creditor,” Fannie Mae's address and federal identification number (52-0883107), and include a legend identifying the statement as important tax information that is being furnished to the Internal Revenue Service.

Information that must be reported on IRS Form 1099-C includes:

- the Borrower's name, address, and taxpayer identification number (the Social Security number if the borrower is a natural person);
- the date the debt was cancelled;
- the amount of the cancelled debt, which does not include interest or any amount received in satisfaction of the debt from a foreclosure sale or other means;
- a description of the debt, such as “mortgage loan,” and a description of the Property if a combined IRS Form 1099-C and 1099-A is filed;
- whether the Borrower is personally liable for the debt;
- whether the debt was cancelled in bankruptcy; and
- the fair market value of the Property if a combined IRS Form 1099-C and 1099-A is filed.

If the cancelled Mortgage Loan had an original principal amount of $10,000 or more, was originated after 1994, and involves Borrowers who are jointly and severally liable for the debt, a separate information return for each Borrower must be filed, and each return must report the entire amount of the cancelled debt. If the Mortgage Loan was originated prior to January 1,
1995, or if the original principal amount of the cancelled Mortgage Loan was less than $10,000, and if there are multiple Borrowers, reporting is required only with respect to the primary (or first-named) Borrower. In addition, only one information return is required, regardless of the origination date or the original principal amount, if the Servicer knows, or has reason to know, that co-Borrowers were husband and wife living at the same address when the Mortgage Loan was originated, and does not know or have reason to know that such circumstances have changed when the Mortgage Loan is cancelled.

D. Exceptions to IRS Form 1099-C Reporting

**Interest.** Interest need not be reported. If it is reported as part of the cancelled debt, the IRS Form 1099-C instructions require that it be shown in a separate box on the form.

**Non-principal amounts.** Cancellation of amounts other than stated principal, including penalties, fines, fees, and administrative costs charged to the Borrower, need not be reported.

**Release of a co-Borrower.** IRS Form 1099-C need not be filed when one Borrower is released from a Mortgage Loan as long as the remaining Borrowers are liable for the full unpaid principal balance of the Mortgage Loan.

**Guarantor or surety.** A guarantor or surety (i.e., any Guarantor or Key Principal executing a Non-Recourse Guaranty or a Payment Guaranty) is not a Borrower for purposes of the debt cancellation reporting requirements, so IRS Form 1099-C is never required.

E. Coordination with Reporting Abandonments or Acquisitions

If, in the same calendar year, the Mortgage Loan is cancelled in connection with the acquisition or abandonment of the same Property securing the Mortgage Loan, filing a timely and accurate IRS Form 1099-C will satisfy the requirement to file an IRS Form 1099-A.

Section 221.05 Reporting via Magnetic Media

The Servicer must report IRS Forms 1099-C and 1099-A information on magnetic media and must do so on Fannie Mae's behalf. Even though the Servicer reports to the Internal Revenue Service on magnetic media, it is still responsible for providing a hard copy of the IRS Forms 1099-C or 1099-A, as applicable, to the Borrower (Copy B) and to those states that require it (Copy C). Copy B must be sent to the Borrower no later than January 31.

The Servicer must review each Borrower’s Form W-9 for validity and request a new Form W-9 if any form is invalid. A valid W-9 will include the Borrower’s name, tax identification number, date, and signature. In preparing Forms 1099-C or 1099-A, the Servicer must (i) utilize the IRS TIN Matching program and perform tax identification number matching...
for all United States non-exempt Borrowers in all circumstances, (ii) notify Fannie Mae of any Borrower that is identified as an unsuccessful TIN Match prior to preparing Form 1099, and (3) follow up with any Borrower whose name and tax identification number combination fail the IRS TIN Match. The Servicer should also provide to Fannie Mae its TCC (Transmittal Control Code) at the beginning of each year, which will allow Fannie Mae to communicate to the Servicer any errors on its 1099 filings.

The Servicer does not need to send Fannie Mae a copy of the magnetic media filed by the Servicer with the Internal Revenue Service. However, to ensure that Fannie Mae can identify the Servicer and the loan number for a specific Mortgage Loan should the Internal Revenue Service contact Fannie Mae for additional information or clarification, the Servicer must:

- insert the following header information when the IRS Form 1099-C or 1099-A, as applicable, is filed on Fannie Mae's behalf:
  - Fannie Mae on the first “Payer” line; and
  - the Fannie Mae loan number for the related Mortgage Loan on the line for the “Payer's account number for Payee”; and
- within thirty (30) days after filing with the Internal Revenue Service, send an email to Fannie Mae at Multifamily 1099 Reporting@Fanniemae.com, containing a summary of IRS Forms 1099-C or 1099-A, as applicable, to notify Fannie Mae what the Servicer reported to the Internal Revenue Service on magnetic media.
# Chapter 3 – Custodial Account Requirements

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Chapter 3 – Custodial Account Requirements

Section 301. Custodial Accounts (05/21/18)

Section 301.01. General

The Servicer must establish and maintain Custodial Accounts to deposit funds collected in connection with Mortgage Loans in accordance with the requirements of the Loan Documents, and must maintain strict control of all such funds in its custody. All Custodial Accounts and related records must be maintained in accordance with sound accounting and cash management practices, and in such a manner as will permit representatives of Fannie Mae, at any time, to examine and audit such accounts and records. The requirements for Custodial Accounts apply to the establishment and maintenance of all Custodial Accounts, including Principal and Interest (“P&I”) Custodial Accounts, Taxes and Insurance (“T&I”) Custodial Accounts, Collateral Agreement Custodial Accounts, and Drafting Accounts. Separate requirements apply for a Clearing Account used by the Servicer as a Custodial Account.

Section 301.02. Custodial Account Types, Investments, and Depositories

A. Custodial Account Requirements and Investments

All Custodial Accounts must be either demand deposit accounts or money market accounts established and maintained at an Eligible Depository.

Other than the earnings typically derived from a demand deposit account or money market account (e.g., interest), funds in Custodial Accounts are not permitted to be invested.

B. Eligible Depositories

If the Servicer is a depository institution, it can establish the account within its own institution so long as:

- it meets Fannie Mae’s criteria for an Eligible Depository; and
- does not use its general ledger or internal operating account for the Custodial Accounts.

If the Servicer does not comply with the above requirements, it must establish the account in an Eligible Depository.
C. **Verifying Depository Ratings**

When determining the eligibility of a depository institution, the Servicer must use the most recent financial ratings issued within the past 3 months, and must confirm these ratings every 3 months thereafter. If the Servicer learns that a depository institution or its holding company no longer satisfies the rating requirement for an Eligible Depository, the Custodial Account must be transferred to an Eligible Depository within 30 days.

D. **Fannie Mae’s Rights in Custodial Accounts**

The Loan Documents grant to Fannie Mae a security interest in all Custodial Accounts associated with a Mortgage Loan. In exercising its rights under the Loan Documents, Fannie Mae, in its sole discretion, reserves the right to require the Servicer at any time to:

- transfer funds out of an institution (even if it is an Eligible Depository) to a Custodial Account in another Eligible Depository;
- move funds to a trust account;
- ensure the funds in a Custodial Account are fully insured by the FDIC or NCUSIF or other governmental insurer or guarantor as may be acceptable to Fannie Mae; and/or
- remit more frequently to Fannie Mae while allowing funds to remain in the existing Custodial Account.

Specific actions may vary depending on the size of the accounts, the risks involved, and other factors as determined by Fannie Mae.

**Section 301.03. Required Custodial Accounts**

Subject to Custodial Account co-mingling constraints set forth in this Chapter, for all Mortgage Loans, the Servicer must establish and maintain:

- one or more P&I Custodial Accounts for Cash Mortgage Loans and Pooled from Portfolio (“PFP”) Mortgage Loans;
- one or more P&I Custodial Accounts for Securitized Mortgage Loans, but excluding PFP Mortgage Loans;
- either:
  - a T&I Custodial Account for the deposit of T&I escrow funds for all Cash Mortgage Loans and Securitized Mortgage Loans; or
  - multiple T&I Custodial Accounts for Cash Mortgage Loans and multiple T&I Custodial Accounts for Securitized Mortgage Loans; and
- Custodial Accounts for the deposit of funds for which the Borrower is required to make deposits to the Servicer pursuant to a Collateral Agreement.
Section 301.04. Servicer Liability

A. Responsibility of Servicer

The Servicer is responsible for the safekeeping at all times of the deposits held in Custodial Accounts. The Servicer must establish appropriate methods for monitoring the financial viability of the depositories that hold custodial funds.

B. Servicer Liable for Losses

Fannie Mae will hold the Servicer liable for all losses of funds deposited in Custodial Accounts, including any damages Fannie Mae suffers because of delays in obtaining such funds, regardless of whether the Servicer has complied with the requirements of this Guide.

C. No Reimbursement for Losses

Any losses incurred by the Servicer will not be reimbursed by Fannie Mae nor permitted to be applied by the Lender in the calculation of any Mortgage Loan loss claim.

D. Overdrafts Not Permitted

A Custodial Account must not be overdrawn at any time. If an overdraft occurs, the Servicer must immediately advance the Servicer’s own funds to cure the overdraft.

Section 302. Establishment of Custodial Accounts (05/21/18)

Section 302.01. Notification Requirements

A. Establishment of a Custodial Account

Whenever the Servicer establishes a Custodial Account, the Servicer and the depository institution maintaining such account must execute the following forms, as applicable:

- a Letter of Authorization for Multifamily P&I Custodial Account (Form 2050);
- a Letter of Authorization for Multifamily T&I Custodial Account (Form 2052); or
- a Letter of Authorization for Multifamily Collateral Agreement Custodial Account (Form 2051).

The executed form should be sent to:
B. Changes to a Custodial Account

The Servicer and the depository institution must execute and forward the appropriate Form 2050, 2051, or 2052 to Fannie Mae, within 30 days after the event, if it:

- changes the Eligible Depository for any Custodial Account (note that the Servicer must provide Fannie Mae with a new Letter of Authorization for any Custodial Account moved to a different Eligible Depository); or
- changes account information on an existing Custodial Account.

C. Termination of a Custodial Account

The Servicer must execute and forward the appropriate Form 2050, 2051, or 2052 to Fannie Mae, within 30 days after it closes or ceases to use any Custodial Account for which an executed Letter of Authorization is on file with Fannie Mae.

Section 302.02. Titling of Custodial Accounts

The Servicer must send Fannie Mae the account title of each Custodial Account at the time the Custodial Account is established or changed. A copy of a signature card, bank statement, or system generated screen print must be submitted with the appropriate Letter of Authorization (see Section 105.01 of this Chapter). Custodial Accounts must be titled as follows:

<table>
<thead>
<tr>
<th>Type of Custodial Account</th>
<th>Required Title</th>
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</thead>
<tbody>
<tr>
<td>P&amp;I Accounts</td>
<td>[Name of Servicer], as agent, trustee, and/or bailee for Fannie Mae and/or payments of various mortgagors and/or various owners of interests in mortgage-backed securities (Custodial Account)</td>
</tr>
<tr>
<td>T&amp;I Accounts</td>
<td>[Name of Servicer], as agent, trustee, and/or bailee for Fannie Mae and/or payments of various mortgagors and/or various owners of interests in mortgage-backed securities (Custodial Account)</td>
</tr>
<tr>
<td>Collateral Agreement Accounts</td>
<td>[Name of Servicer], as agent, trustee, and/or bailee for Fannie Mae and/or payments of various mortgagors and/or various owners of interests in mortgage-backed securities (Custodial Account)</td>
</tr>
</tbody>
</table>
Section 302.03. Daily Cutoff

The Servicer must establish a reasonable daily cutoff of its work to ensure that collections are credited to the appropriate Custodial Account no later than the Business Day following receipt of such collections.

Section 303. Principal and Interest Custodial Accounts (05/21/18)

Section 303.01. Purpose of P&I Custodial Accounts

P&I Custodial Accounts are for the deposit of all Borrower payments of principal or interest due and owing on a Mortgage Loan, including any unscheduled payments of principal, interest, or the recovery of any Delinquency Advances made by the Servicer. The Servicer must deposit any funds received for such purpose in a P&I Custodial Account as soon as practicable, but no later than the second Business Day (including any time during which funds are in a Clearing Account or general ledger account) after receipt by Servicer.

Section 303.02. P&I Commingling Restrictions

A. Maintain Multiple P&I Custodial Accounts

The Servicer is required to maintain multiple P&I Custodial Accounts, at least one for each of the following products or executions, for which the Servicer makes P&I collections:

- Cash Mortgage Loans, including:
  - Cash Mortgage Loans originated under the Guide, the DUS Guide, or the NT Guide; or
  - PFP Mortgage Loans originated under the Guide, the DUS Guide, or the NT Guide;
- MBS Mortgage Loans (including MBS Mortgage Loans originated under the Guide, the DUS Guide, or the NT Guide, but excluding Prior Approval Loans) and DMBS Mortgage Loans;
- Prior Approval Loans;
- Muni Mae Loans;
- Credit Enhancement Mortgage Loans or transactions involving Credit Enhancement Instruments;
- Real Estate Mortgage Investment Conduit (“REMIC”) transactions originated under the NT Guide; and
- other Securitized Mortgage Loans.
B. No Commingling Permitted

The Servicer must deposit all principal and interest collections for Mortgage Loans into the P&I Custodial Accounts specifically established for each product or execution type as described in this Section, and may not commingle funds for any other product or execution, except as permitted above. For example, P&I funds for Cash Mortgage Loans may not be commingled with P&I funds for MBS Mortgage Loans, but Cash Mortgage Loans originated under the Guide may be commingled with P&I funds for Cash Mortgage Loans originated under the NT Guide.

Section 303.03. Withdrawals from P&I Custodial Accounts

The Servicer may withdraw funds from the P&I Custodial Account only for the following purposes:

- to remit funds to Fannie Mae;
- to reimburse the Servicer for a Delinquency Advance that is recovered from subsequent collections from or on behalf of the Borrower for the Mortgage Loan for which the Delinquency Advance was made;
- to remove funds that were deposited to the account in error;
- to transfer interest or other investment earnings applicable to demand deposit accounts or money market accounts;
- to pay the Guaranty Fee (unless the Servicer has received notice that an event of default by the guarantor of any Security Trust Indenture has occurred);
- to remove fees, charges, or other such amounts that are deposited on a temporary basis in the account, such as late charges, Servicing Fees, or unsecuritized excess spread due the Servicer (i.e., when the Pass-Through Rate on a specific Mortgage Loan is greater than the Pass-Through Rate of the MBS Pool backed by that Mortgage Loan); or
- to clear and terminate the account or transfer any funds to one or more other Custodial Accounts as may be permitted in this Guide.

Section 303.04. Use as a Clearing Account Not Permitted

The Servicer may not use any P&I Custodial Account as a Clearing Account. The Servicer must establish a separate account in an Eligible Depository for this purpose.
Section 304. Tax and Insurance Custodial Accounts (05/21/18)

Section 304.01. Purpose of T&I Custodial Accounts

T&I Custodial Accounts are for the deposit of all Borrower payments for taxes, assessments, ground rents, insurance premiums, and any Servicing Advances made by the Servicer for such items.

Section 304.02. T&I Commingling Restrictions

Funds in T&I Custodial Accounts must not be commingled with funds in P&I Custodial Accounts or Collateral Agreement Custodial Accounts. The Servicer may establish:

- a single T&I Custodial Account for all T&I deposits; or
- separate T&I Custodial Accounts, with all Cash Mortgage Loans segregated in a single T&I Custodial Account, and all Securitized Mortgage Loans segregated in another.

Separate T&I Custodial Accounts for individual Mortgage Loans or individual Borrowers may be allowed, but only with Fannie Mae’s prior consent.

Section 304.03. Prohibited Use of T&I Custodial Account Funds

Funds in any T&I Custodial Account must not be used to:

- supplement the Borrower’s monthly payment obligation to Fannie Mae;
- reimburse the Servicer for any Servicing Advances unless the Servicing Advance is recovered from subsequent collections from or on behalf of the Borrower for the Mortgage Loan for which the Servicing Advance was made; or
- supplement a shortfall in any Borrower’s tax or insurance obligation by using another Borrower’s tax or insurance deposits. Use of a Borrower’s tax or insurance deposits for a shortfall in either a tax or insurance obligation of that Borrower is permitted so long as the Servicer adjusts future deposits as required by the Guide.

Section 305. Collateral Agreement Custodial Accounts (05/21/18)

Section 305.01. Purpose of Collateral Agreement Custodial Accounts

If required by the Loan Documents, the Servicer must establish Collateral Agreement Custodial Accounts for deposits to be made by the Borrower:

- into a Completion/Repair Escrow;
- into a Replacement Reserve;
Section 305.02. Commingling Restrictions

Collateral Agreement Custodial Account funds must not be commingled with either P&I or T&I funds. The Servicer may establish one account for all of its Collateral Agreement deposits, or establish a separate Custodial Account for each:

- Mortgage Loan;
- type of Collateral Agreement;
- Borrower; or
- individual Collateral Agreement.

The Servicer must notify its Fannie Mae Representative, as provided by Section 105.01 of this Chapter, when any Collateral Agreement Custodial Account is closed due to a disbursement of all funds and satisfaction of all responsibilities under the applicable Collateral Agreement.

Section 306. Interest-Bearing Accounts (05/21/18)

Section 306.01. Interest-Bearing Account Requirements

The Custodial Accounts may be interest-bearing, provided that:

- the Custodial Account complies with all applicable local, state, and federal laws and regulations for accounts containing Borrower’s funds; and
- funds in the Custodial Account are available for withdrawal on demand and without prior notice or early withdrawal penalty.

Custodial Accounts that limit the number of withdrawals may be maintained, but the Servicer is responsible for any excess withdrawal penalties.

Section 306.02. Loan Documents May Require Interest-Bearing Accounts

If the Loan Documents require that the deposits into the particular Completion/Repair Escrow, Replacement Reserve, or other Collateral Agreement Custodial Account be held in an interest-bearing account, then the Servicer must fully comply with such requirement.
Section 307. Clearing Accounts (05/21/18)

Section 307.01. Clearing Accounts Permitted

If deposits and disbursements cannot be made directly to or from the Custodial Accounts, the Servicer may use a Clearing Account. When a Clearing Account is used, a separate account must be established for collections and disbursements.

Section 307.02. Custodial Account Requirements Applicable to Clearing Accounts

Any Clearing Account used by the Servicer for the deposit and transfer of funds collected in connection with a Mortgage Loan must be established at an Eligible Depository. The titles of the accounts must reflect that they are custodial in nature and the depository in which the accounts are maintained must be informed in writing that they are Custodial Accounts. While a Clearing Account is not required to be titled in Fannie Mae’s name, the Servicer's records must clearly identify Fannie Mae’s interest in any funds deposited in a Clearing Account.

Section 307.03. Clearing Account Activity Guidelines

Clearing Account activity must follow the guidelines set forth below.

A. Timing for Crediting to Custodial Account

Collections deposited to the Clearing Account must be credited to the applicable Custodial Account by the first Business Day after the Servicer receives them unless transfer of funds occurs via ACH, in which case an additional Business Day is permitted to complete the transfer. Fannie Mae’s allowance of this additional day to deposit funds into the Custodial Account does not extend the date by which the Servicer must remit funds to Fannie Mae.

B. Debit and Credit Memos Permitted

Debit and credit memos may be used to transfer funds between the Clearing Account and the Custodial Account.

C. Using Checks

Checks that transfer funds from a Custodial Account (other than a P&I Custodial Account) to a disbursement Clearing Account must be deposited to the disbursement Clearing Account concurrent with, or prior to, the issuance of any check drawn on the Clearing Account.
D. Insufficient Funds Checks

Checks returned for "insufficient funds" may be netted against another day’s collections, or a check may be drawn on the Custodial Account to reimburse the Clearing Account.

E. Records and Audit Trails

Adequate records and audit trails must be maintained to support all credits to, and charges from, the Borrower’s payment records and the Clearing Accounts.

Section 308. Drafting Accounts (05/21/18)

Section 308.01 Establishing Drafting Accounts

To simplify the transfer of funds to Fannie Mae, the Servicer may use Drafting Accounts. Any Drafting Account must be established at an Eligible Depository, and the title of the Drafting Account must reflect that it is custodial in nature. The depository must be given written notification that the Drafting Account is a Custodial Account established for the benefit of Fannie Mae.

Section 308.02 Consolidated Custodial Account

A Letter of Authorization (Form 2050) must be submitted to Fannie Mae when establishing a consolidated Custodial Account for drafting purposes.

A. Distinct Custodial Accounts for Securitized Mortgage Loans (Other Than PFP MBS)

Separate consolidated Custodial Accounts must be used for drafting P&I remittances for Securitized Mortgage Loans (other than PFP MBS), and other separate consolidated Custodial Accounts must be used for remittances for all other products and executions.

B. Timely Remittance

If the Servicer establishes one or more consolidated Custodial Accounts for drafting funds to Fannie Mae, the Servicer must move all funds due Fannie Mae into the consolidated Custodial Account in time to meet Fannie Mae’s remittance requirements.

C. Commingling of P&I Funds Permitted for Cash Executions

A Servicer that services multiple Multifamily Mortgage Business products and executions for Cash Mortgage Loans may commingle temporarily P&I funds for all such products and executions under its master five-digit Servicer number into one Drafting Account that has been designated as a consolidated Drafting Account for such Cash Mortgage Loans.
D. **Commingling of P&I Funds Permitted for Securitized Mortgage Loans**

A Servicer that services multiple Multifamily Mortgage Business products and executions for Securitized Mortgage Loans may commingle temporarily P&I funds for all such products and executions under its master five-digit Servicer number into one Drafting Account that has been designated as a consolidated Drafting Account for such Securitized Mortgage Loans.

E. **Separate Accounts for P&I Funds Permitted**

The Servicer may designate one Drafting Account for P&I funds for each product and execution that the Servicer services under each of its nine-digit Servicer numbers.

F. **Corporate/General Lender Accounts Not Permitted**

The Servicer’s corporate, general ledger, or other internal operating account may not be designated as a Drafting Account.

G. **Timing of Commingling**

When the Servicer commingles funds, the funds must not be commingled earlier than the Business Day preceding the Business Day on which the funds are to be drafted.

H. **Election of Cash Remittance System or Automated Drafting System Required**

The Servicer must use either the Cash Remittance System or the Automated Drafting System (the system used for remittances related to Securitized Mortgage Loans). When the Servicer establishes a consolidated Custodial Account for the Cash Remittance System, the Servicer cannot establish a separate consolidated Custodial Account under the Automated Drafting System.

I. **Required Records**

The Servicer must maintain records on an individual Mortgage Loan level basis regarding the sources of the commingled funds.

**Section 309. Custodial Account Reconciliations (05/21/18)**

The Servicer must perform a monthly analysis and reconciliation of each of the following Custodial Accounts maintained by the Servicer:

- Principal and Interest (“P&I”);
- Taxes and Insurance (“T&I”); and
- Collateral Agreement.
At a minimum, the reconciliation must include:

- a depository reconciliation;
- composition of cashbook balance; and
- an explanation of line items.

Fannie Mae may review the Servicer’s reconciliation, including an explanation of any adjustments made by the Servicer, the specific cashbook balances, and any individual components.

While Fannie Mae does not prescribe a recordkeeping method for the Servicer to use to generate a cashbook balance, the Servicer must:

- maintain the integrity of the Custodial Account balances that it reports on the reconciliation forms; and
- be able to substantiate each of the cashbook components.

At a minimum, the Servicer must retain sufficient detail to perform the following cashbook computation:

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\text{Beginning Cashbook Balance} & + \text{Receipts} \\
& - \text{Disbursements} \\
& +/- \text{Cashbook Adjustments} \\
& \text{Ending Cashbook Balance}
\end{align*}
\]

**Section 310. Taxes, Assessments, Insurance Premiums, and Other Charges/Obligations (05/21/18)**

**Section 310.01. Taxes and Insurance and Other Custodial Accounts**

The Servicer must ensure that all applicable real estate taxes, special assessments, insurance premiums, ground rents, and other charges or obligations that could become Liens against the Property are paid on a timely basis. If the Servicer is collecting T&I Payments, the Servicer must pay any penalty or late fee incurred for failing to make timely payments.

**Section 310.02. Collections for T&I and Other Obligations**

**A. T&I and Other Obligations**

Unless precluded by the Loan Documents, the Servicer must collect monthly payments from the Borrower for T&I to ensure that adequate funds will be on deposit to timely pay all of the following (the “T&I Obligations”):
real estate taxes;
- special assessments;
- water and sewer assessments which, if unpaid, would give rise to a Lien against the Property;
- insurance premiums;
- Ground Lease payments (if applicable); and
- any other similar charges or obligations.

The Servicer may engage qualified Outside Parties (meeting the requirements of Part II, Section 511) to manage the:

- collection of funds deposited into the T&I Custodial Account; and
- payment of T&I Obligations, provided that the Servicer adequately manages and monitors the vendor.

B. Collections for T&I Obligations

All collections by the Servicer from the Borrower for the payment of T&I Obligations must be deposited in a T&I Custodial Account meeting the requirements for a Custodial Account described in Part V, Chapter 1.

C. No Financing for T&I Obligations

The Servicer must not provide financing to the Borrower, or otherwise permit the Borrower to obtain financing, in order to pay any T&I Obligation.

Section 310.03. Interest Earned on T&I and Other Custodial Accounts

The Servicer must comply with any applicable law, regulation, or other legal requirement that obligates the Servicer to pay to the Borrower interest earned on the T&I Custodial Account, otherwise the Servicer may retain such interest.

Section 310.04. Accounting for T&I Custodial Accounts

The Servicer is responsible for maintaining and administering all funds collected from the Borrower and held in a T&I Custodial Account on a Mortgage Loan basis. At a minimum, the Servicer must account for the following in connection with each Mortgage Loan:

- the amounts of, and payment deadlines for, all T&I Obligations that must be funded from the T&I Custodial Account;
- the monthly funds due for deposit into the T&I Custodial Account;
- the funds actually received and deposited in the T&I Custodial Account;
Section 310.05. Commingling of Funds in T&I Custodial Accounts

The Servicer may use a single T&I Custodial Account to hold funds collected from multiple Borrowers for the aggregate T&I Obligations of such Borrowers.

Section 310.06. T&I Account Shortfalls

The Servicer must not use funds collected from one Borrower to pay obligations of another Borrower. Any shortfall in the T&I Custodial Account for a particular Borrower must be paid by that Borrower, or by the Servicer in the form of a Servicing Advance. The Servicer is responsible for any misuse of funds and shortfalls in the T&I Custodial Account.

Section 310.07. Periodic Analysis of Borrower’s T&I Obligations and Custodial Account Collections

A. Timing of Analysis

The Servicer must analyze its T&I Custodial Account records:

- annually for each Mortgage Loan; and
- when a change occurs in the T&I Obligations for any Borrower.

The Servicer must determine whether the Borrower's funds held in the T&I Custodial Account, together with the Borrower's required monthly deposit into the T&I Custodial Account, are sufficient to make timely payments for all upcoming T&I Obligations for that Borrower.

B. Insufficient Borrower Funds

If the Borrower's funds held in the T&I Custodial Account are insufficient to timely pay all T&I Obligations, the Servicer must:

- bill the Borrower for any shortage; and/or
- increase the Borrower's monthly payment into the T&I Custodial Account to ensure that funds are available to timely pay all T&I Obligations due.

Provided the amount of the Borrower’s future deposits are adjusted as required above, the Servicer may use:

- a Borrower’s deposits for taxes in the T&I Custodial Accounts for a shortfall in that Borrower’s insurance T&I Obligation; or
a Borrower’s deposits for insurance in the T&I Custodial Accounts for a shortfall in that Borrower’s tax T&I Obligation.

C. Custodial Account Surplus

The Servicer must ensure the Borrower's funds held in the T&I Custodial Account are sufficient to timely pay all applicable T&I Obligations due. However, the Servicer may not maintain a surplus in the T&I Custodial Account equal to more than 2 monthly T&I payments for any Borrower. At the time of the T&I Custodial Account analysis, provided that no event of default by the Borrower or any other party under any of the Loan Documents beyond any applicable grace or cure period has occurred, the Servicer must either:

- refund the amount of the surplus in excess of the 2 monthly T&I payments to the Borrower; or
- reduce the amount of the Borrower's required monthly deposit into the T&I Custodial Account to ensure that the surplus will be reduced by the amount exceeding 2 monthly T&I payments within 12 months.

If an event of default by the Borrower or any other party under any of the Loan Documents beyond any applicable grace or cure period has occurred, no surplus from the T&I Custodial Account may be refunded to the Borrower.

Section 310.08. Annual T&I Custodial Account Statements

By January 31st of each year, the Servicer must provide the Borrower with either a written statement, or notice and access to an electronic statement, detailing all activity relating to the Borrower's T&I Custodial Account during the preceding calendar year. The statement must include:

- the balance of the Borrower’s funds on deposit in the T&I Custodial Account at the beginning of the preceding calendar year;
- the total deposits made by the Borrower into the T&I Custodial Account during the preceding calendar year;
- the total withdrawals made by the Servicer during the preceding calendar year, and an itemization of the amounts of the specific T&I Obligations and other charges (e.g., real estate taxes, insurance premiums, etc.) that were paid with such withdrawals;
- the balance of the Borrower’s funds on deposit in the T&I Custodial Account at the end of the calendar year; and
- the amount of interest, if any, paid or credited to the Borrower on the Borrower's funds on deposit in the T&I Custodial Account.

The Servicer’s monthly statement to the Borrower may be used as a substitute for the annual statement of the Borrower’s funds on deposit in the T&I Custodial Account so long as such monthly statements are itemized and reflect cumulative deposits and withdrawals. The Servicer may be
required to submit copies to Fannie Mae of the statements of any or all Borrower funds on deposit in the T&I Custodial Accounts.
Part V – Servicing and Asset Management

Chapter 4 – Asset Management: Loan Document Administration

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Chapter 4 – Asset Management: Loan Document Administration

Section 401. Servicing Requirements (05/21/18)

Section 401.01. General

This Chapter covers asset management of performing Mortgage Loans. This Chapter does not apply to Non-Performing Mortgage Loans, unless otherwise stated. For asset management of Non-Performing Mortgage Loans, the Servicer must comply with Part V, Chapter 6 and Chapter 7. This Chapter covers the Servicer’s:

- administration of Loan Documents, including Collateral Agreements;
- review of a delegated and non-delegated Borrower request;
- approval of a delegated Borrower request;
- management of insurance matters;
- review of Transfer/Assumption requests; and
- administration of specialty product types.

The Servicer must submit all Borrower requests, along with any additional information and required documents, through the Multifamily Asset Management Portal (“MAMP”). If submitting through the MAMP is not feasible, overnight mail must be used and sent to:

Fannie Mae
Attention: (Drawer AM, Structured AM, Seniors AM, or Assumption/Transfer)
Mailstop 8H-607
3900 Wisconsin Ave, NW
Washington, DC 20016

Fannie Mae email addresses and contact information for notices required in this Chapter are located in Appendix A to Part I – Glossary.

Section 401.02. Monitoring Compliance with Loan Documents

For each Mortgage Loan, the Servicer must monitor the Borrower’s compliance with the terms and conditions of the Loan Documents, and facilitate compliance or take appropriate actions to address any instance of noncompliance. All Loan Documents and all other documents required to be retained by the Servicer must be maintained in accordance with Part II, Chapter 5.
In the event of any conflict between or among the requirements of the Guide, the Disclosure Documents, the Lender Contract, and the Loan Documents, the governing priority shall be, in order:

- Loan Documents;
- Disclosure Documents;
- Lender Contract; and
- Guide.

Section 402. Delegation of Decision-Making Authority; Retention of Outside Legal Counsel (05/21/18)

Section 402.01. Delegation of Decision-Making Authority

Fannie Mae delegates significant decision-making authority and responsibility to the Servicer to the extent specified in the Multifamily Asset Management Delegated Transaction Forms (Form 4636 series) (each, the “Delegated Transaction Form”), covering the following matters:

- Transfers/Assumptions (Form 4636.TA);
- Commercial Leases (Form 4636.CL);
- Condemnations (Form 4636.C);
- Condominium/Cooperative Property Conversions (Form 4636.CC);
- Easements (Form 4636.E);
- Oil, Gas, or Mineral Rights Leases (Form 4636.OGL);
- Partial Releases of Collateral (Form 4636.PR);
- Property Management Changes (Form 4636.PM); and
- Use Conversions (Form 4636.UC).

The Servicer must follow the instructions in the Delegated Transaction Form, which will specify which matters are delegated and which are non-delegated. All delegated and non-delegated requests must be submitted through the MAMP, with the Delegated Transaction Form and the required supporting documents.

A transaction memo must be submitted for any unusual matters not covered in the Guide, or matters that could materially affect Fannie Mae’s security interests, investment interests, or the interests of Investors in Securitized Mortgage Loans. Decision-making authority is more limited for Credit Facilities, Bulk Deliveries, and certain Seniors Housing Loan matters. Neither the Servicer nor Fannie Mae has the authority to waive any local, state, or federal law or regulation.
Section 402.02. Retention of Outside Legal Counsel

Fannie Mae often retains outside legal counsel to review non-delegated matters or other matters that require Fannie Mae’s legal review. In such instance, the Servicer must obtain the Borrower’s written agreement to pay the reasonable legal fees and expenses of Fannie Mae’s counsel before any legal work may commence.

If Fannie Mae outside counsel review is required or requested, the Borrower must pay the applicable legal fee, which will either be a fixed fee or an estimated fee depending on the type of request. For an estimated fee request, the Servicer must notify the Borrower that the actual legal fee may be higher or lower than the estimate, depending on the ultimate scope of the request, and the time needed to resolve the issue.

Fannie Mae will:
- apprise the Servicer of any likely increases in the estimated review fee;
- provide the Servicer the amount of the fee for any fixed fee request; and
- provide the Servicer a summary invoice directly from Fannie Mae’s outside counsel.

Upon receipt of the invoice, the Servicer must arrange for payment of Fannie Mae’s legal fees. The legal fee must be collected from the Borrower before engaging Fannie Mae outside counsel.

Section 403. Execution of Documents by Servicer – Limited Power of Attorney (05/21/18)

Fannie Mae may provide the Servicer with a Limited Power of Attorney conferring the right to execute certain documents as attorney-in-fact on behalf of Fannie Mae. If granted, the actions authorized in the Limited Power of Attorney will be specifically limited, and allow the Servicer to execute only those documents listed in the Limited Power of Attorney. To exercise the Limited Power of Attorney the Servicer must execute documents as “[Name of Servicer], as Attorney-in-Fact for Fannie Mae”. The Servicer’s designation as attorney-in-fact will be subject to review and renewal, and the power granted under the Limited Power of Attorney may be revoked by Fannie Mae at any time. Requests for new and replacement Limited Power of Attorney should be submitted through the MAMP or as required by Section 401.01. As each Limited Power of Attorney expires on a specified date according to its terms, the Servicer must monitor the expiration date and request a new Limited Power of Attorney at least 30 days prior to the expiration date.
Section 404. Execution of Documents by Fannie Mae (05/21/18)

Section 404.01. Submission of Documents to Fannie Mae

All documents requiring execution by Fannie Mae (clearly identified by Fannie Mae Loan Number) must be sent to Multifamily Asset Management. Fannie Mae will execute the documents without prior review if the Servicer provides the certifications described in this Section.

The Servicer must include directions for returning the documents, including:

- contact name;
- overnight delivery mailing address;
- phone number; and
- email address.

Section 404.02. Servicer Certification When Fannie Mae Approval Is Not Required

For any document submitted to Fannie Mae for execution when the servicing decision has been delegated to the Servicer, the Servicer must provide written certification to Fannie Mae that:

- the Servicer has reviewed the proposed transaction, and approval by the Servicer is in compliance with the Guide, the Loan Documents, any Disclosure Documents, and the Lender Contract;
- the Servicer has approved the proposed transaction;
- no approval or waiver is required from Fannie Mae;
- Servicer’s legal counsel has reviewed and approved all relevant documents associated with the transaction, and determined that those documents are sufficient to fully effectuate the transaction; and
- any material changes to Fannie Mae form Loan Documents have been approved by Fannie Mae.

Section 404.03. Servicer Certification When Fannie Mae Approval Is Required

For any document submitted to Fannie Mae for execution when the servicing decision has not been delegated to the Servicer, the Servicer must provide written certification to Fannie Mae that:

- the Servicer has reviewed the proposed transaction, and approval by the Servicer is not delegated under the Guide;
- the Servicer recommends approval by Fannie Mae of the proposed transaction;
any required waivers have been submitted by the Servicer;

Servicer’s legal counsel has reviewed and approved all relevant documents associated with the transaction, and determined that those documents are sufficient to fully effectuate the transaction; and

any material changes to Fannie Mae form Loan Documents have been approved by Fannie Mae.

Section 405. Fees Due to Fannie Mae (05/21/18)

Certain fees may be due to Fannie Mae in connection with a Borrower servicing request. The specified fees are for typical requests; however, higher fees may be required for complicated or non-standard requests, or for other matters not specified in this Chapter. No later than 10 Business Days following receipt of any fee by the Servicer, the Servicer must remit to Fannie Mae, by wire transfer of immediately available funds, Fannie Mae’s portion of the fee. The Servicer must submit the wire transfer confirmation number, wire date, and wire amount through the MAMP immediately following each funds transfer, as follows:

ABA Number: 021 039 500
Telegraphic Abbreviation: FNMA/NYC
Account Number: 169220242
Note: Type of fee (e.g., Assumption/Transfer), Fannie Mae Loan Number and Property Name
Attention: Trans code 507 - GL 747669921

Section 406. Follow-Up Actions by the Servicer (05/21/18)

The Servicer must take all applicable actions required to fully effectuate the transaction, including:

amending the recorded Security Instrument or filed Uniform Commercial Code (UCC) financing statements;

updating the Property survey;

obtaining an endorsement to the mortgagee’s title insurance policy showing no impairment of Fannie Mae’s Lien position, and dating down title to reflect any recorded amendment to the Security Instrument;

recording all applicable documents, and sending the required documents through the MAMP;

sending an executed original copy of any new or amended Loan Document to Fannie Mae at:
non-compliance with this chapter, including failing to timely deliver all required documentation and fees, may result in fannie mae’s cancellation of the servicer’s limited power of attorney, and exercise of any other remedies available to fannie mae.

section 407. subordinate financing (05/21/18)

section 407.01. non-fannie mae subordinate financing

a subordinate loan is generally not permitted unless it complies with fannie mae’s requirements. approval of any subordinate loan is not delegated to the servicer and must be approved in advance by fannie mae. additionally:

• with respect to any subordinate loan, the servicer must abide by the terms and conditions of the loan documents, the guide, and any disclosure documents, provided that the loan documents will control in the case of any conflict;

• unless the loan documents explicitly allow a subordinate loan, the servicer must not permit the borrower, without prior fannie mae approval, to incur the subordinate loan or allow a lien securing the subordinate loan to be placed against the property;

• if the loan documents explicitly allow a subordinate loan without the approval of the lender, the consent of the servicer or fannie mae is not required; however, notice of the subordinate loan and a copy of any documents must be submitted through the mamp;

• the borrower and the subordinate lender must enter into and record the appropriate subordination agreement (form 6414 or form 6456); and

• the proceeds of the subordinate loan must benefit the property (i.e., cash-out financing is not permitted).
The Servicer must immediately notify Multifamily Asset Management in writing upon learning of any unauthorized additional unsecured debt or indebtedness secured by a Lien on the Property or of any pledge of ownership interests that is not permitted by the Loan Documents, and send the Borrower a Reservation of Rights Letter (Form 4804) with a copy submitted through the MAMP. Fannie Mae will determine whether to approve the Subordinate Loan, or exercise its remedies.

Section 407.02. Prerequisite for Subordinate Financing

Part IIIC, Chapter 2 – Subordinate Financing, contains the requirements for subordinate financing, and Part IIIB, Chapter 7 contains additional requirements for subordinate financing with respect to a Multifamily Affordable Housing Property. The Servicer must ensure adherence to all applicable requirements.

Section 407.03. Fees for Subordinate Financing

The Borrower must pay the Servicer a $2,500 review fee. The Servicer may increase or decrease its fee at its discretion. No Fannie Mae review fees are due. The Servicer may also seek reimbursement from the Borrower for all reasonable out-of-pocket costs, including reasonable legal fees incurred by Servicer’s counsel.

If Fannie Mae outside counsel is engaged, the Borrower must pay its fee, estimated at $2,500 for Subordinate Financing requests. The actual legal fee may be higher or lower, depending on the ultimate scope of the request and the time necessary to resolve. The Servicer will receive a summary invoice directly from Fannie Mae outside counsel and must arrange for payment. The Servicer will be apprised of any likely increases in the estimated review fee. The estimated legal fee must be collected from the Borrower before engaging Fannie Mae outside counsel.

Section 407.04. Submitting the Request for Subordinate Financing

Any Borrower request for approval of a Subordinate Loan must be reviewed by the Servicer. If acceptable, the request must be submitted for approval through the MAMP in accordance with the following:

- the Servicer must submit the request to Fannie Mae at least 30 days before the projected closing date of the Subordinate Loan; and

- the submission must contain:
  - an Appraisal (obtained at the Borrower’s cost), dated no earlier than 90 days prior to the date of the Borrower request for approval of the Subordinate Loan, that conforms to the requirements of Part IIIA, Section 310;
  - Servicer’s underwriting spreadsheet showing the Subordinate Loan’s effect on the Property’s income, expenses, NCF, DSCR, and LTV;
☐ a copy of the final, unsigned loan documents evidencing the Subordinate Loan, with the loan amount, interest rate, payment schedules, and all other transaction related information completed;

☐ the MBA Master Inspection Form documenting a physical inspection of the Property, performed at Borrower’s expense, occurring no earlier than 90 days before the date of the Borrower request for the Subordinate Loan; provided that, if the Servicer’s inspection of the Property reveals that the Property is not being properly maintained, the Borrower request will not be approved by Fannie Mae unless:
  - a Replacement Reserve is sufficiently funded; and
  - the Borrower makes any immediate repairs identified by the Servicer prior to the closing date of the Subordinate Loan; and

☐ a title policy endorsement for the Property showing no unauthorized Liens or encumbrances of any nature against the Property.

For a Cooperative Property, the Subordinate Loan is unacceptable if the potential increase in the Cooperative Maintenance Fee necessary to cover principal and interest on the Subordinate Loan exceeds 10% of the current Cooperative Maintenance Fee.

**Section 407.05. Fannie Mae Approval and Execution**

Fannie Mae will provide the Servicer with a written decision regarding the Borrower request, after which the Servicer must notify the Borrower in writing and retain the notice in the Servicing File.

**Section 407.06. Subsequent Servicer Actions**

The Servicer must:

- not permit any changes to the form Subordination Agreement (Form 6414 or Form 6456) without the prior written consent of Fannie Mae;

- obtain a satisfactory title policy endorsement effective as of the date of recordation of the subordinate security instrument that:
  - insures the Lien of the Security Instrument as senior to the Lien of the subordinate security instrument; and
  - reflects the recordation of the Subordination Agreement;

- submit a copy of the recorded Subordination Agreement through the MAMP; and

- retain a copy of the recorded Subordination Agreement and the title policy endorsement in the Servicing File.
Section 408. Administration of Collateral Agreements (05/21/18)

Section 408.01. General Administrative Requirements

A. Administration of Funds

The Servicer must:

- administer and manage funds or collateral under all Collateral Agreements; and
- ensure that any disbursements of funds, or other collateral releases or reductions, are:
  - approved only for valid reasons;
  - appropriately documented; and
  - consistent with the provisions of the Collateral Agreement and this Section.

B. Funds to be Held in a Custodial Account

The Servicer must deposit funds held under a Collateral Agreement in a Custodial Account that meets the requirements of Part V, Chapter 3.

C. Use of Funds

Funds must be used only for the purposes stated in the Collateral Agreement, and must not supplement a partial P&I payment or cover any other Borrower obligation unrelated to the primary purposes of the Collateral Agreement.

D. Funds as Additional Security for Mortgage Loan

All funds or other collateral held under a Collateral Agreement constitute additional security for the Borrower’s obligations under the Note and the other Loan Documents. In the event of a default under the Loan Documents, Fannie Mae reserves the right to apply (or direct the Servicer to apply) the funds or other collateral held under any Collateral Agreement in any manner allowed under the terms of such Collateral Agreement. Following a default, unless instructed by Fannie Mae, the Servicer must not:

- release any funds or other collateral held under a Collateral Agreement;
- apply any funds or collateral to the repayment of the Mortgage Loan; or
- reimburse itself from such funds or collateral for any expenses or losses incurred by the Servicer.

E. Servicer’s Fees and Costs

If the Collateral Agreement contemplates the payment of fees or costs by the Borrower, the Servicer may collect and retain such fees or costs for its own account, adhering to any specific billing
provisions of the Collateral Agreement. Any fees or costs retained by the Servicer must be reasonable in relation to the nature and scope of the services provided by or on behalf of the Servicer. The Servicer must not use any of the funds or other collateral held under the Collateral Agreement to cover such fees or costs. However, the Servicer may deduct such fees or costs from any disbursement of funds to the Borrower, provided such disbursements, fees, and costs are permitted under the Collateral Agreement, or if the Borrower otherwise agrees in writing.

F. Waiver or Modification of Terms of Collateral Agreement

Except as noted in this Chapter, the Servicer must not waive or modify the terms of any Collateral Agreement.

Section 408.02. Achievement Agreement or Other Agreement for Additional Collateral

A. General

The provisions of this Section govern Achievement Agreements and all Collateral Agreements, other than Replacement Reserve Agreements and Completion/Repair Agreements.

The Servicer must maintain an effective system for monitoring the expiration date of any Achievement Agreement or other Collateral Agreement, and ensure that all actions required to be taken pursuant to any such agreement have been timely performed and, if not timely performed, immediately notify Multifamily Asset Management.

B. Releases or Reductions in Collateral

Any request for a release or reduction of collateral must be processed in accordance with this Section, unless these instructions conflict with the terms and conditions of the Achievement Agreement or other Collateral Agreement.

1. General

If the Borrower has not satisfied the requirements for a release or reduction of collateral contained in the Achievement Agreement or other Collateral Agreement, the Servicer must not approve the Borrower request, and may decline the Borrower request without notice to Fannie Mae. If the Servicer determines that the Borrower has satisfied the requirements of the Achievement Agreement or other Collateral Agreement, the Servicer must recommend the release or reduction of collateral through the MAMP, accompanied by the supporting documentation listed below. Upon receipt and review of all pertinent information, Fannie Mae will approve or deny the request and notify the Servicer of its decision.
2. Supporting Documentation and Analysis

The following documentation must be submitted through the MAMP, and maintained in the Servicing File, in connection with each request for a release or reduction of collateral:

(a) Income and Expense Statements; Current Rent Roll

Property income and expense statements and a current rent roll must be obtained from, and certified by, the Borrower. The statements must cover the applicable period required by the Achievement Agreement or other Collateral Agreement. Based on the Loan Documents, Part III of the Guide, the certified income and expense statements, and the current rent roll, the Servicer must develop a Net Cash Flow estimate to determine whether the release or reduction provisions of the applicable Achievement Agreement or other Collateral Agreement are satisfied. The income, vacancy, collection loss, and concession information should support the Effective Gross Income that the Servicer is relying on in assessing whether a release or reduction is warranted.

In deriving its estimate of Effective Gross Income, the Servicer must adjust for:

- income that was not allowed or recognized in the original underwriting;
- the effect of a partial year’s performance when the shorter period reflects the short-term, positive impact from seasonal variations that do not reflect the Property’s year-round performance;
- non-monetary concessions, requiring the Servicer to deduct the pro-rata value of the concession from the monthly rent for the applicable unit.

The Servicer must ensure that all appropriate types of expenses, including underwritten Replacement Reserve deposits, are included, and that any inappropriate expenses (e.g., capital improvement costs, repair costs covered by funds set aside under a Completion/Repair Agreement, partnership costs, etc.) are excluded. To avoid unwarranted releases or reductions of collateral, the expense figures must reflect stabilized operating conditions, and must not be understated due to efficiencies or savings that could not be replicated by a different owner or manager, or that would not be recognized for underwriting purposes in Part III.

The Servicer must perform a line-by-line expense analysis, including a comparison of the original underwriting estimates with the actual expenses shown on the Borrower’s income and expense statements. The Servicer must use the greater of the underwritten or the actual expense figure shown for each item on the Borrower’s statements.
(b) **Property Inspection Form**

The Servicer must complete the MBA Master Inspection Form reporting the results of the Servicer’s inspection of the Property. No inspection or report is required if the Servicer determines that the financial statements do not support the Borrower request for a release or reduction of collateral.

(c) **Servicer’s Analysis**

The Servicer must provide an analysis and recommendation regarding the release or reduction of collateral, including any calculations required under the terms of the applicable Achievement Agreement or other Collateral Agreement.

(d) **Correspondence**

The Servicer must provide any correspondence with the Borrower that pertains to the release or reduction request.

3. **Property Inspection**

Before approving any request for a release or reduction of collateral, the Servicer must perform a physical inspection of the Property to verify that:

- no deferred maintenance exists;
- necessary capital improvements have been made; and
- the general management and operations are acceptable and characteristic of a stabilized project.

The Servicer’s inspection must occur no more than 90 days prior to the date of the submission to Fannie Mae of the release or reduction request. The Servicer must document the results of its inspection by completing the MBA Master Inspection Form.

C. **Draws on Letters of Credit or Application of Other Collateral**

1. **Draws Triggered by Adverse Events**

The Servicer must promptly notify Multifamily Asset Management when any of the following events occur, which could result in a draw on a Letter of Credit issued for an Achievement Agreement or other Collateral Agreement:

- a default under the Loan Documents, including the Achievement Agreement or other Collateral Agreement;
the failure to renew or replace an expiring Letter of Credit at least 30 days prior to its expiration date, or other deadline specified in the Achievement Agreement or other Collateral Agreement; or

- the failure to replace a Letter of Credit by the replacement deadline when the Issuer is no longer acceptably rated.

The Servicer’s notice to Fannie Mae must include a recommended course of action, and be accompanied by a copy of the executed Achievement Agreement or other Collateral Agreement.

2. **Draw Resulting from Non-Compliance with Issuer Rating Requirements or Expiration of Letter of Credit**

If a draw on the Letter of Credit occurs due to non-compliance with the rating requirements for the Issuer or because of an imminent expiration of the Letter of Credit, Fannie Mae will hold the Letter of Credit proceeds in its designated account until the earliest of the following:

- the Borrower presents a replacement Letter of Credit and Fannie Mae agrees, in its sole discretion, to accept the Letter of Credit;
  
  (NOTE: Any agreement by Fannie Mae to accept a replacement Letter of Credit will be conditioned upon the Borrower’s payment of all administrative and legal costs incurred by the Servicer and Fannie Mae in connection with the replacement of the Letter of Credit.)

- the release or reduction provisions of the applicable Achievement Agreement or other Collateral Agreement are satisfied; or

- the Borrower pays all amounts due and payable under the Loan Documents, including any required Prepayment Premium, and Fannie Mae releases the Lien of the Security Instrument.

3. **Draws Occasioned by Borrower Request**

If the Servicer receives a request from the Borrower to draw on the Letter of Credit and have the proceeds applied as a partial Prepayment against the UPB, and the Loan Documents allow partial Prepayments, the Servicer must immediately forward the request, along with an analysis and recommendation, including an estimate of the applicable Prepayment Premium, to Fannie Mae. If the Loan Documents do not allow partial Prepayments, the Servicer must deny the Borrower request.

Fannie Mae will assess the Borrower request and determine if the proposed use of the Letter of Credit proceeds or other collateral would be in the best interest of Fannie Mae and/or the Investor in any Securitized Mortgage Loan. Any decision to apply Letter of Credit proceeds or apply other collateral to a partial Prepayment will be made by Fannie Mae.
in its sole discretion. Fannie Mae will notify the Servicer of its determination and will provide appropriate follow-up instructions.

4. No Interest on Proceeds Held by Fannie Mae

Fannie Mae will not pay interest on the cash proceeds it holds resulting from a draw on a Letter of Credit.

Section 408.03. Completion/Repair Agreement

A. General

The Servicer must administer the Completion/Repair Agreement to ensure the timely implementation of all Completion/Repairs.

B. Extensions for Completion/Repair Agreement

The Servicer is delegated the authority to extend the time limits for making Completion/Repairs if:

- the Completion/Repairs subject to the extension request do not involve life safety issues; and
- the Mortgage Loan does not have a Fannie Mae risk rating of Substandard or Doubtful.

Notwithstanding the above, the Servicer is delegated the authority to grant a one-time extension of 30 days for a life safety issue if the Borrower is diligently pursuing completion of the related Completion/Repair.

The duration of any permitted non-life safety extension may not exceed:

- 1 year past the completion date specified in the Completion/Repair Agreement for that Completion/Repair, for a Mortgage Loan with no Loss Sharing; and
- 2 years past the completion date specified in the Completion/Repair Agreement for that Completion/Repair, for any Mortgage Loan with Loss Sharing.

The Servicer is not delegated the authority to extend the time limit for any Completion/Repairs that are Efficiency Measures which the Borrower agreed to implement in order to qualify as a Green Rewards Mortgage Loan or a Green Preservation Plus Mortgage Loan. Fannie Mae will generally not approve any waiver request to extend the time limit for implementing an Efficiency Measure.
C. Amendments to Completion/Repair Agreements

Servicers are delegated the authority to move required Completion/Repairs from the Completion/Repair Agreement to the Replacement Reserve Agreement, and the associated deposit from the Completion/Repair Escrow into the Replacement Reserve, provided:

- the Completion/Repair does not involve life safety issues;
- delaying the Completion/Repair will not materially negatively impact the Property; and
- the total amount of Completion/Repairs being transferred does not exceed the lesser of (i) 25% of the original Completion/Repairs total, or (ii) $75,000.

Notwithstanding the above, the Servicer is not delegated the authority to move required Completion/Repairs to the Replacement Reserve Agreement for any Efficiency Measures that the Borrower agreed to implement in order to qualify as a Green Rewards Mortgage Loan or a Green Preservation Plus Mortgage Loan.

The Servicer must submit the amended Completion/Repair Agreement through the MAMP, and retain a copy in its Servicing File.

D. Servicer’s Administrative Requirements

For any Completion/Repair Agreement, the Servicer must:

- retain a copy of the executed Completion/Repair Agreement in its Servicing File;
- hold all Completion/Repair Escrow funds in an account that meets the Custodial Account requirements of Part V, Chapter 3;
- ensure that all necessary permits are obtained, and that all required work is satisfactorily completed in a good and workmanlike manner by the completion dates stipulated in the Completion/Repair Agreement;
- process Borrower requisitions for funds in accordance with the terms and conditions of the Completion/Repair Agreement;
- perform required inspections of completed work and, if appropriate, work in progress and, if necessary, arrange inspections by qualified professionals;
- ensure that the work done under the Completion/Repair Agreement does not result in any mechanics’ Liens, materialmen’s Liens, or other Liens that have not been acceptably bonded over;
- promptly notify Fannie Mae of any default under the Completion/Repair Agreement in accordance with the requirements of Part V, Chapter 7;
- take appropriate steps to remedy or address any default under the Completion/Repair Agreement; and
perform all other administrative duties required by the Completion/Repair Agreement.

E. Processing Borrower Requisitions

1. General

Completion/Repair Escrow funds are available to reimburse the Borrower for costs incurred for Completion/Repairs that are specifically identified in the Completion/Repair Agreement. The Servicer may authorize the release of funds to cover the costs of other reasonable and necessary repairs, replacements, or improvements that are not specified in the Completion/Repair Agreement only if the Completion/Repair Agreement provides for such disbursements, and all conditions are fully satisfied.

2. Required Documentation for Disbursement

To obtain reimbursement, the Borrower must submit a written requisition specifying the Completion/Repairs for which reimbursement is being sought, including:

- the specific Completion/Repairs completed;
- the quantity and price of all materials (grouped by type or category) or specific replacement items (e.g., appliances) purchased in connection with the Completion/Repairs; and
- the cost of all contracted labor or other services involved in completing the Completion/Repairs.

The Borrower requisition for the specified Completion/Repairs for which reimbursement is being sought must be accompanied by:

- a Borrower certification that the specific Completion/Repairs have been completed:
  - in a good and workmanlike manner;
  - in accordance with any plans and specifications previously approved by the Servicer; and
  - in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property;
- copies of invoices and evidence of payment for all items and materials purchased and all labor and services provided, the cost of which exceeds the lesser of $25,000 or 1% of the Unpaid Principal Balance; and
- a release of Lien from each contractor, subcontractor, or materialman providing services or materials, the cost of which exceeds the lesser of $25,000 or 1% of the Unpaid Principal Balance.
3. Disbursement of Funds (Excluding Final Disbursement)

The Servicer may disburse funds to the Borrower only if it has received all required documentation and determined that all applicable conditions for disbursement have been met, including (but not limited to) the following:

- all Completion/Repairs covered by the requisition have been completed in a good and workmanlike manner, as evidenced by the Borrower’s submission and, if appropriate, an inspection of the completed work (see guidance on inspections below);
- all related invoices for items and services covered by the requisition have been paid, unless the Borrower has satisfied any applicable pre-conditions of the Completion/Repair Agreement for issuance of a joint check(s), made payable to the Borrower and the Person owed funds under such invoices;
- no mechanics’ Liens, materialmen’s Liens, or other Liens exist, unless acceptably bonded over; and
- no default exists under any Loan Document, including the Completion/Repair Agreement.

The amount disbursed to the Borrower for any requisition, other than the final requisition, may not exceed the actual cost of the Completion/Repairs, and may be less than the actual cost if, after disbursement, the amount of funds remaining in the Completion/Repair Escrow would be less than the anticipated cost of completing all remaining Completion/Repairs plus any holdback specified in the Completion/Repair Agreement.

Notwithstanding the above, once 75% of the total dollar amount of Completion/Repairs is disbursed, the Servicer may release funds in the Completion/Repair Escrow, provided:

- funds are only released for Completion/Repairs that have been fully completed;
- the Servicer has complied with all other disbursement requirements;
- the Servicer completes an analysis showing that the remaining amount in the Completion/Repair Escrow is sufficient to complete all remaining Completion/Repairs;
- the Borrower affirms in writing its obligation to complete the remaining Completion/Repairs by the required completion dates; and
- the Completion/Repair is not an Efficiency Measure the Borrower agreed to implement in order to qualify as a Green Rewards Mortgage Loan, as the Servicer is not delegated the authority to release any Completion/Repair Escrow related to any Efficiency Measures.
4. Final Disbursement of Funds

Before making the final disbursement of funds from the Completion/Repair Escrow, the Servicer must confirm and document the absence of any mechanics’ and materialmen’s Liens by requiring the Borrower to obtain an updated title report or a title policy endorsement showing that no such Liens exist. The Servicer may waive the updated title report or endorsement for Secondary Risk Mortgage Loans when the total scope of work is less than $75,000. If the Borrower fails to provide the required title documentation, the Servicer must obtain a title report or title policy endorsement, and may charge the Borrower for the cost.

The Servicer may make a final disbursement of all remaining funds upon satisfactory completion of all required Completion/Repairs, and satisfaction of all other applicable release conditions contained in the Completion/Repair Agreement.

5. Maintenance of Servicing File

The Servicer must document the action taken with respect to each Borrower requisition for funds from the Completion/Repair Escrow in its Servicing File.

F. Inspections

1. Use of Outside Party

The Servicer may inspect the Property, or have a qualified Outside Party inspect the Property, to confirm that the Completion/Repairs covered by the requisition have been satisfactorily completed. The Servicer is responsible for monitoring the Outside Party’s performance.

2. When Periodic Inspections Are Required

Periodic inspections must be performed as the work progresses if the Completion/Repairs:

- exceed in the aggregate the lesser of:
  - $500,000, or 20% of the UPB of a Secondary Risk Mortgage Loan; or
  - $250,000, or 10% of the UPB of a Primary Risk Mortgage Loan; or
- are likely to require more than 6 months to complete.

Inspections must occur at least every 3 months, or more frequently at the Servicer’s discretion.
3. When a Final Inspection Is Required

An inspection must be performed to ensure that all Completion/Repairs have been satisfactorily completed before approving and disbursing the final requisition when the Completion/Repairs exceed the lesser of:

- $500,000, or 20% of the UPB of a Secondary Risk Mortgage Loan; or
- $250,000, or 10% of the UPB of a Primary Risk Mortgage Loan.

4. Confirming Completion/Repairs if Inspection Is Not Required

Even if an inspection is not required by this Section, the Borrower must provide evidence to the Servicer that all Completion/Repairs covered by the requisition have been satisfactorily completed. If not inspected sooner, the Servicer must confirm the satisfactory completion of the Completion/Repairs during the next regularly scheduled Property inspection.

5. Documenting the Servicing File

In all instances, the Servicer must document in its Servicing File whether all work was satisfactorily completed.

G. Fees

Completion/Repair Agreement funds may not be used to cover any administrative or inspection fees due to the Servicer unless expressly permitted in the Completion/Repair Agreement, or the Borrower agrees in writing. If permitted, the Servicer may charge the Borrower and deduct the following from any disbursement of funds:

- reasonable fees to cover the Servicer’s costs of administering the Completion/Repair Agreement; and
- additional fees to cover any reasonable inspection costs that are not adequately covered by general administrative fees collected from the Borrower.

H. Default under Completion/Repair Agreement

1. Notification of Default to Fannie Mae

The Servicer must immediately notify Fannie Mae of any default under the Completion/Repair Agreement in accordance with the requirements of Part V, Chapter 7.
2. No Release of Funds to Borrower

No funds may be released to the Borrower while the Borrower is in default under any of the Loan Documents.

Section 408.04. Replacement Reserve

A. General

The Replacement Reserve funds must be held by the Servicer in a Custodial Account, and are intended to pay for necessary replacements of capital items or major maintenance work to the Property over the term of the Mortgage Loan. Replacement Reserve deposits and withdrawals are governed by the Replacement Reserve Agreement.

B. Amendments to Replacement Reserve Agreements

If the Servicer is delegated the authority to sign an amended Replacement Reserve Agreement under its Limited Power of Attorney, the delegation does not expand the Servicer’s ability to change or modify the terms of the Replacement Reserve Agreement, except where expressly permitted by this Section.

The Servicer must submit the executed amended Replacement Reserve Agreement through the MAMP, and retain the original in its Servicing File.

C. Servicer’s Administrative Requirements

For all Replacement Reserve Agreements, the Servicer must:

- retain a copy of the executed Replacement Reserve Agreement in its Servicing File;
- unless the Borrower has requested in writing a non-interest bearing account, hold all funds in an interest-bearing Custodial Account that meets the requirements of Part V, Chapter 3 and the Replacement Reserve Agreement;
- ensure that all required deposits are made to the Replacement Reserve in accordance with the Replacement Reserve Agreement and the other Loan Documents;
- process Borrower requisitions for funds in accordance with the terms and conditions of the Replacement Reserve Agreement;
- perform required inspections of completed work and, if appropriate, work in progress, and arrange, if necessary, for inspections by qualified professionals;
- ensure that the work done under the Replacement Reserve Agreement does not result in any mechanics’ Liens, materialmen’s Liens, or other Liens that have not been acceptably bonded over;
promptly notify Fannie Mae of any default under the Replacement Reserve Agreement in accordance with the requirements of Part V, Chapter 7;

- reassess the adequacy of the Replacement Reserve or the schedule of required deposits; and

- perform all other administrative duties required by the Replacement Reserve Agreement.

D. Modifications to Replacement Reserve Deposits

Based on the results of a Property inspection or Property Condition Assessment, the Servicer may determine that the current level of Replacement Reserve funding and scheduled deposits will be insufficient to meet all projected capital item or major maintenance needs. The Servicer must then:

- adjust the Required Repair Schedule to the Replacement Reserve Agreement and the Replacement Reserve funding, if warranted, in accordance with the Loan Documents and Part III;

- require the Borrower to increase the size of its monthly Replacement Reserve deposits to a sufficient level; and

- give the Borrower at least 30 days advance written notice prior to implementing any of the foregoing changes.

E. New Property Condition Assessments

1. MAH Properties and other Mortgage Loans with Terms Greater than 10 Years

All MAH Properties require a new Property Condition Assessment every 5 years. For any other Mortgage Loan having a term greater than 10 years, the Servicer must arrange to have a Property Condition Assessment performed during the tenth Loan Year, and every 10 years thereafter, so long as the Mortgage Loan remains outstanding, or as specified in the Loan Documents.

2. Cost of Property Condition Assessment

Subject to the terms of the Loan Documents, the cost of the Property Condition Assessment may be paid from funds in the Replacement Reserve.

F. When Replacement Reserve Funding Was Partially or Fully Waived

If Replacement Reserve funding was partially or fully waived at the Mortgage Loan Origination Date, the Servicer must monitor the condition of the Property to ensure the Borrower preserves and maintains the Property as required by the Loan Documents.
If the Servicer or Fannie Mae determines that the Borrower is not properly preserving and maintaining the Property, the Servicer must require the Borrower to begin making monthly deposits to the Replacement Reserve in accordance with either the funding schedule set forth in the Replacement Reserve Agreement, or an alternative funding schedule determined by the Servicer.

G. Interest on Replacement Reserve Funds

If the Servicer holds the Replacement Reserve funds in an interest-bearing Custodial Account, none of the interest earned on the Replacement Reserve funds may be retained by the Servicer. Unless the Mortgage Loan is in default, all interest must be:

- added to the balance of the Replacement Reserve; or
- paid to the Borrower if applicable law requires or the Servicer agrees.

H. Items Eligible for Funding from the Replacement Reserve

Replacement Reserve funds are available to reimburse the Borrower for costs incurred to replace capital items or maintain major items specifically identified in the Replacement Reserve Agreement.

Replacement Reserve funds also may be used for discretionary replacements of capital items or major maintenance items that are not specifically identified in the Replacement Reserve Agreement, but which the Servicer determines are intended to be covered by a Replacement Reserve Agreement, such as those that would:

- correct or forestall a problem that may adversely affect the physical condition, livability, marketability, or value of the Property;
- directly contribute to the maintenance or enhancement of the Property’s physical condition, livability, marketability, or value; or
- likely be noted in an updated Property Condition Assessment.

If Replacement Reserve funds are used for purposes not originally contemplated in the Replacement Reserve Agreement or the Property Condition Assessment, the Servicer must monitor and adjust the monthly reserve deposits to ensure sufficient funds are available to make timely replacements of capital items or major maintenance items in the manner contemplated in the Replacement Reserve Agreement and/or the Property Condition Assessment.

I. Items Not Eligible for Funding from the Replacement Reserve

The Servicer must not use Replacement Reserve funds to reimburse the Borrower for any item specifically identified for reimbursement under a Completion/Repair Agreement, or for any routine maintenance item, routine repair, or cosmetic repair that would normally be characterized as an operating expense. Replacement Reserve funds must never be used for Principal and Interest,
Taxes or Insurance, or any other purpose not specifically permitted by the Replacement Reserve Agreement, the Loan Documents, or the Guide.

J. Processing Borrower Requisitions

1. General

The Replacement Reserve Agreement specifies the frequency, timing, and size of disbursements from the Replacement Reserve.

2. Required Documentation

Each Borrower requisition must be in writing and specify, at a minimum:

- the specific capital item replaced or major maintenance items for which reimbursement is being sought, and if any item is not specifically identified in the Replacement Reserve Agreement, an explanation of why the Replacement Reserve funds should be released for the item;
- the quantity and price of each type of capital item replaced (e.g., refrigerators);
- the quantity and price of all materials or parts (grouped by type or category) purchased; and
- the cost of all contracted labor or other services.

Each Borrower requisition submitted to the Servicer must be accompanied by:

- a Borrower certification that the capital item replacements or major maintenance items covered by the requisition have been completed in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property;
- copies of invoices and evidence of payment for all capital items and materials purchased and all labor and services provided, the cost of which exceeds the lesser of $25,000 or 1% of the Unpaid Principal Balance;
- a release of Lien from each contractor, subcontractor, or materialman providing services or materials, the cost of which exceeds the lesser of $25,000 or 1% of the UPB; and
- other relevant documentation required by the Replacement Reserve Agreement.
3. Disbursement of Funds

The Servicer may release funds to the Borrower only if all required documentation is received, and all applicable release conditions have been met, including, but not limited to:

- all capital item replacements or major maintenance items covered by the requisition have been completed in a good and workmanlike manner;
- all related invoices for capital items and services have been paid, unless the Borrower has satisfied any applicable pre-conditions of the Replacement Reserve Agreement for issuance of a joint check, made payable to the Borrower and the Person owed funds;
- no mechanics’ Liens, materialmen’s Liens, or other Liens are outstanding that have not been acceptably bonded over; and
- the Borrower is not in default under any Loan Document.

The amount disbursed to the Borrower must not exceed the actual cost of the capital item replacements or major maintenance items covered by the Borrower’s requisition.

4. Maintenance of Servicing File

The Servicer must ensure that the action taken with respect to each Borrower requisition for funds from the Replacement Reserve is appropriately documented in its Servicing File.

K. Inspections

The Servicer may use its discretion in deciding whether to conduct an on-site inspection before approving any specific requisition for Replacement Reserve funds. If the Servicer elects not to perform an on-site inspection when a requisition is submitted, the Servicer must inspect all capital item replacements or maintenance items covered by the requisition during its next scheduled Property inspection and confirm the satisfactory completion.

L. Fees

If the Replacement Reserve Agreement permits, the Servicer may collect and retain:

- a reasonable fee to cover the Servicer’s routine costs of administering the Replacement Reserve; and
- additional fees to cover:
  - reasonable inspection costs, including the fees of any qualified professional used by the Servicer; and
  - any other reasonable costs incurred in connection with collecting, holding, investing, or disbursing Replacement Reserve funds but which are not
adequately covered by the general administrative fees collected from the Borrower.

Subject to the Replacement Reserve Agreement, the Servicer may charge the Borrower a reasonable fee for any special inspection services provided in connection with a Replacement Reserve requisition; however, no fee may be charged if such inspection is made as part of a regularly scheduled Property inspection.

Replacement Reserve funds, including any interest, may not be used to cover fees due to the Servicer unless:

- the Replacement Reserve Agreement or other Loan Document specifically permits the Servicer to use Replacement reserve funds to pay Servicer inspection fees; or
- the Borrower otherwise agrees in writing.

M. Default under Replacement Reserve Agreement

1. Notification of Default to Fannie Mae

The Servicer must immediately notify Fannie Mae in writing of any default under the Replacement Reserve Agreement in accordance with the requirements of Part V, Chapter 7.

2. No Release of Funds to Borrower

No funds may be released to the Borrower while the Mortgage Loan is in default.

N. Return of Replacement Reserve Funds to Borrower

No later than 30 days after the Mortgage Loan is paid in full, the Servicer must refund to the Borrower all remaining Replacement Reserve funds.

O. Alternative Funding of Replacement Reserves for Portfolio Mortgage Loans

The Servicer may amend existing Replacement Reserve Agreements on Fannie Mae’s behalf to match the alternative Replacement Reserve funding available for newly originated Mortgage Loans if the Borrower has a history of adequate property maintenance, and no other concerns are present (e.g., declining Property condition, declining rents, declining Net Cash Flow). The Servicer must retain the original restated Replacement Reserve Agreement or Amendment in the Servicing File, and submit a copy through the MAMP.

The Servicer must ensure the Property is properly maintained on an ongoing basis. If the Property is not being properly maintained, the Servicer must reinstate monthly deposits to the Replacement Reserve and the reimbursement requisition process.
Section 409. Interest Rate Hedge Requirements (05/21/18)

Section 409.01. General

An acceptable Interest Rate Hedge must be in place and maintained at all times for:

- variable rate Credit Enhancement Mortgage Loans;
- Mortgage Loans backing a Discount Mortgage Backed Security (DMBS);
- Structured ARM Loans; and
- any Mortgage Loan where (i) the Borrower was permitted to execute the Fannie Mae form Interest Rate Cap Reserve and Security Agreement (Springing Cap) (Form 6442.SC), or a similar agreement, allowing for a “springing” Interest Rate Cap under certain circumstances, and (ii) the requirement of the Borrower to acquire and pledge to the Lender an Interest Rate Cap has been triggered under the agreement.

The Interest Rate Hedge may be either an Interest Rate Cap or Interest Rate Swap, although the prior approval of Fannie Mae is required before the Borrower may enter into an Interest Rate Swap.

Each Interest Rate Hedge Agreement and its collateral assignment must meet the requirements of Part IIIC, Chapter 4.

Fannie Mae outside counsel must be engaged, at Borrower’s cost, to review the hedge bid package and documents, and prepare the amended Loan Documents for each hedge renewal. The Servicer must submit a completed Counsel Designation Request for Interest Rate Hedge Transactions (Form 4625.A).

Section 409.02. Interest Rate Hedge Coverage

A. Bond Credit Enhancement Transactions

For Bond Credit Enhancement Mortgage Loans, the Interest Rate Hedge must:

- be in place whenever the variable rate mode is in effect; and
- comply with the requirements of the Reimbursement Agreement and other Loan Documents.

B. Structured Transactions

When required for a Structured Transactions, the Servicer must ensure that the Interest Rate Hedge conforms to the applicable Master Credit Facility Agreement, Bulk Delivery Agreement, and/or the other Loan Document requirements.
Section 409.03. Interest Rate Hedge Term

The Servicer must:

- monitor the term of each Interest Rate Hedge Agreement;
- hold all escrowed funds for an Interest Rate Hedge in an account meeting the Custodial Account requirements of Part V, Chapter 3;
- engage the Borrower prior to expiration of each Interest Rate Hedge to ensure that an acceptable replacement Interest Rate Hedge is in place prior to its expiration; and
- perform any required functions with respect to the Interest Rate Hedge Agreement.

Section 409.04. Lien Filings and Collateral

The Servicer must maintain all UCC filings, and ensure that Fannie Mae’s Lien in the Interest Rate Hedge is maintained. The Servicer must not direct the investment, application, or release of the collateral under any Interest Rate Hedge Agreement, without express written authorization from Fannie Mae.

Section 409.05. Borrower Payments

A. Interest Rate Caps

Any payments by the Interest Rate Cap provider must be made to the Servicer and not to the Borrower. The disposition of funds depends on whether the Borrower is current on the Mortgage Loan and Reimbursement Agreement payment obligations (principal or Principal Reserve Fund deposit, as applicable, interest, any interest rate cap escrow, and all other amounts then due) or any default exists under the Reimbursement Agreement or any other Loan Document.

If no default exists, the Servicer must remit the Interest Rate Cap provider’s payment to the Borrower. If a default exists, the Servicer must retain the Interest Rate Cap provider’s payment as additional collateral for the Borrower’s obligations, to be held in accordance with the applicable agreements, and notify Multifamily Structured Asset Management of the receipt of the payment.

If the Bond Trustee or another third party is to receive any payments from the Interest Rate Cap provider, and the Borrower is not current on its payments or a default exists, then the Servicer must:

- notify the payee of the facts; and
- instruct the third party to withhold the payment to the Borrower, and make payment to the Servicer to be held as additional collateral for the Borrower’s obligations.
B. Interest Rate Swaps

The Servicer must monitor the Interest Rate Swap to ensure that all payments are made on a timely basis. All payments under an Interest Rate Swap must be made directly to the Servicer, which will:

- remit the amount received from the Borrower to the Interest Rate Swap provider;
- or
- remit the amount received from the Interest Rate Swap provider to the Borrower, but only after the Borrower has made the required monthly principal and interest payment on the Mortgage Loan.

Payments due on the Interest Rate Swap must match the payment dates on the Mortgage Loan or the Bonds, as applicable. The Servicer must advance Interest Rate Swap payments and Interest Rate Swap credit enhancement fees that are not made by the Borrower or the Interest Rate Swap provider, as applicable, on a timely basis. These payments and their duration will be treated as Delinquency Advances. The Servicer is not required to advance any termination payment due on the Interest Rate Swap.

Section 409.06. Provider Ratings

Fannie Mae lists the credit agency rating requirements and the acceptable Interest Rate Hedge providers on the Cap/Swap Counterparties for Multifamily Transactions page at Fanniemae.com. If the rating of a provider declines to a level where termination and replacement of the outstanding Interest Rate Hedges with that provider is required, Fannie Mae will notify the affected Servicers and direct them to contact their Borrowers and work with them to effect the termination and replacement. Failure to replace any Interest Rate Hedge provider whose rating no longer meets the rating requirements is a default under the Loan Documents.

Section 409.07. Replacement Interest Rate Hedge and Notification

At least 90 days before termination of an Interest Rate Hedge, the Borrower must give the Servicer written notice of its intent to either obtain a new Interest Rate Hedge or, for a variable rate Credit Enhancement Mortgage Loan or Structured ARM Loan, adjust the interest rate to a Bond Reset Interest Rate or fixed rate.

If the Borrower elects to obtain a new Interest Rate Hedge, the Servicer must confirm that the possible Interest Rate Hedge providers are all on the current list of approved Cap/Swap Counterparties for Multifamily Transactions, and review the Loan Documents for the timing requirements.

If the Interest Rate Hedge expires and the Borrower has failed to provide evidence of securing the replacement Interest Rate Hedge, the Servicer must notify Multifamily Structured
Asset Management immediately. Fannie Mae will instruct the Servicer’s action regarding the Borrower’s default.

Section 409.08. Replacement Interest Rate Hedge Documents and Follow Up

The Servicer must retain the original replacement Interest Rate Hedge documents, including the Interest Rate Cap Agreement or Interest Rate Swap Agreement, the Assignment of Hedge Interest or Supplemental Hedge Security Agreement, and UCC Financing Statements in the Servicing File. The Servicer must submit a copy of the new Interest Rate Cap Agreement or Interest Rate Swap Agreement through the MAMP, and provide the new Interest Rate Hedge information as follows:

- for Credit Enhancement Mortgage Loans – upload Hedge Delivery Information Form 4643 into CESIR;
- for DMBS and all Interest Rate Hedges in Credit Facility and Bulk Delivery transactions – update hedge data in MSFMS; or
- for Structured ARM Loans (except in Credit Facility and Bulk Delivery transactions) – submit Interest Rate Hedge Delivery Information (Form 4643) through the MAMP.

Section 410. Ground Leases (05/21/18)

If the Borrower owns a Leasehold interest in the Property, the Servicer must:

- ensure that the Borrower complies with all provisions of the Loan Documents that relate to the Ground Lease;
- if the Ground Lease payments are escrowed, collect monthly payments from the Borrower to ensure sufficient funds will be available to pay the ground rents and any special payments required by the Ground Lease; and
- hold any escrowed ground rent payments with the Borrower’s other T&I escrow funds in a T&I Custodial Account or a separate Custodial Account that meets all requirements of Part V, Chapter 3.

The Servicer is responsible for any losses incurred by Fannie Mae if the Servicer fails to make timely ground rent payments. The Servicer must immediately notify Fannie Mae, in accordance with Part V, Chapter 7, upon learning of any default under the Ground Lease.

Section 411. Notice of Lien or Non-Compliance with Applicable Laws, Ordinances and Regulations (05/21/18)

The Servicer is responsible for protecting the Lien priority of the Security Instrument, and must:
take all reasonable actions to prevent the filing of any Lien that would prime the Lien of the Security Instrument;

- immediately notify Multifamily Asset Management, in writing, upon learning of any such Lien filing, including a recommendation for resolving the situation; and

- notify Fannie Mae, in writing in accordance with Part V, Chapter 7, if:
  - the Servicer is aware of any material violation by the Borrower or Property management agent of any applicable law, ordinance, regulation, or other legal requirement; or
  - the Property is not in compliance with any applicable law, ordinance, regulation, or other legal requirement, including, without limitation, any relating to:
    - Fair Housing Act;
    - Americans with Disabilities Act;
    - non-discrimination;
    - environmental hazards;
    - occupancy;
    - zoning and land use;
    - health, fire, and building codes relating to immediately hazardous conditions; and
    - illegal use of the Property.

The Servicer must also provide to Fannie Mae all information concerning any lawsuit, cause of action, or claim by any third party resulting from or relating to the violation.

**Section 412. Property Forfeitures and Seizures (05/21/18)**

Various federal and state statutes provide for the civil or criminal forfeiture of certain types of property, including real estate that is used, or intended to be used, to commit or facilitate the commission of certain violations of law.

The Servicer must not provide any information about the Borrower, the Mortgage Loan, the Property, any Key Principal, or any Principal directly to any federal or state agency unless Fannie Mae specifically authorizes the release of the information. Following any contact from a federal or state official, the Servicer must immediately contact Multifamily Asset Management and Multifamily Special Asset Management. The Servicer should describe in its communication the nature of the contact, the information requested, and any document or papers received by the Servicer in connection with the contact. The Servicer must continue to service the Mortgage Loan.
Section 413. Property and Liability Insurance (05/21/18)

Section 413.01. Property and Liability Insurance

The Servicer must:

- ensure that the Property is continuously covered by property and liability insurance, as required by Part IIIA, Chapter 3, and that all renewal premiums are paid in full and on time; and
- at least annually review the adequacy of the Borrower’s insurance coverage in relation to the current requirements of Part IIIA, Chapter 3.

If the existing insurance coverage or policy is inadequate, the Servicer must require the Borrower to make appropriate changes. Periodically, the Servicer may be required to make certain representations to Fannie Mae regarding the property and liability insurance coverages and policies for all of the Mortgage Loans it services.

Section 413.02. No Financing for Property and Liability Insurance Premiums

The Servicer must not provide financing to the Borrower, or otherwise permit the Borrower to obtain financing, in order to pay any insurance premiums, except as permitted by Part IIIA, Section 322.

Section 413.03. Flood Map Changes; Obtaining Flood Insurance

The Servicer must monitor all flood map and community status changes, and take appropriate action when changes affecting Mortgage Loans it services occur as required by Part IIIA, Section 322. When a Property is remapped into a Special Flood Hazard Area, the Servicer must require the Borrower to obtain flood insurance, regardless of whether the community is “participating” in the National Flood Insurance Program. The flood insurance policy must be in place within 45 days after the effective date of the remapping. If the Borrower refuses to obtain the required coverage or pay a disputed premium, the Servicer must obtain the required coverage. The Servicer must contact Multifamily Insurance if:

- a Property is in a Special Flood Hazard Area;
- the community in which the Property is located does not participate in the National Flood Insurance Program; and
- the Borrower cannot obtain the required flood insurance.
Section 413.04. Lender Placed Insurance

A. Property and Liability Insurance

If the Borrower fails to obtain acceptable insurance coverage, the Servicer must immediately obtain acceptable insurance coverage for the Property at the Borrower’s expense.

B. Flood Insurance

If acceptable insurance coverage cannot be obtained, the Servicer must immediately contact Multifamily Insurance to determine the appropriate course of action.

C. Servicer’s Administrative Costs and Expenses

The Servicer is permitted to collect from the Borrower any reasonable out-of-pocket costs and expenses incurred by the Servicer to obtain insurance coverage for the Property.

Section 414. Casualty Losses – Performing Mortgage Loans (05/21/18)

Section 414.01. Notice

In the event of a casualty loss of $75,000 or more, the Servicer must submit through the MAMP a:

- Report of Multifamily Hazard Insurance Loss (Form 178):
  - within 30 days if no serious injury or death occurred; or
  - within 10 days if serious injury or death occurred; and
- final Form 178 indicating that the Property is fully restored, and document its Servicing File when the Property is fully restored.

A revised Form 178 must be submitted if any of the information on the form changes for any casualty loss greater than the lesser of (i) $500,000, or (ii) 20% of the UPB.

Section 414.02. Filing Proof of Loss

For any casualty loss covered by the Borrower’s insurance policy, the Servicer must ensure that the Borrower timely files a proof of loss with the insurance carrier, and effects a prompt and reasonable adjustment of the loss. If the Borrower fails to timely file a proof of loss with the insurance carrier, or take requisite actions to effect a prompt adjustment of the loss claim, the Servicer must independently contact the insurance carrier to adjust the loss claim.
Section 414.03. Casualty Loss Assessment

The Servicer must assess the extent and impact of any damage caused by a casualty, and ensure that the Borrower appropriately addresses the damage.

Within 45 days after learning of a casualty loss, the Servicer must document its Servicing File with the results of its casualty loss assessment. At a minimum, the Servicer must include:

- when the casualty loss occurred and when the Servicer was first informed of the casualty loss;
- the scope of the damage and its effect on the Property (e.g., impact on the habitability of the buildings, safety of the residents, serious injury or loss of life, project occupancy, and project income and expenses);
- the Borrower’s plan of action for securing and restoring the damaged portion of the Property, and the status of the Borrower’s efforts to implement the plan, including the specific steps to be taken (e.g., temporarily relocating tenants, preparing plans and specifications, awarding contracts, and commencing repair work);
- whether any environmental problems are associated with the damage, and if so, how they will be addressed;
- the projected cost to repair and restore the damaged Improvements, including any available information on contractors’ bids or awards;
- whether the casualty loss is covered by the Borrower’s insurance policy, the status of any insurance claim, and an estimate of the amount and timing of the funds to be received from the insurance carrier;
- the estimated amount of additional funds that the Borrower will have to provide from its own resources to complete all necessary repair and restoration work, and the current availability of such funds; and
- any other relevant information pertaining to the loss event that is known to the Servicer and could have a material bearing on Fannie Mae’s interests.

Section 414.04. Required Casualty Loss Property Inspection

The Servicer must inspect the Property, take photographs of the damage, and complete a Multifamily Catastrophic Loss Inspection (Form 4261) if:

- the casualty loss is expected to exceed the lesser of (i) $500,000, or (ii) 20% of the UPB of the Mortgage Loan as of the date of the casualty; or
- any of the following conditions exists:
  - a default has occurred and is continuing under the Loan Documents;
The combination of insurance proceeds and Borrower funds is insufficient to complete the necessary Property repairs for restoration to a condition fit for human habitation and meeting all applicable permitting requirements;

prior to the commencement of any restoration work, the Servicer determines that, upon completion of the repair and restoration work, the Property will not be capable of generating sufficient income to cover all operating expenses, required Replacement Reserve deposits, Principal and Interest on the Mortgage Loan, and required payments on any subordinate debt secured by the Property, or will not otherwise meet a DSCR or other test required by the Loan Documents; or

the repair and restoration work will not be completed by the earlier of (i) the Maturity Date, or (ii) within 1 year from the date of the casualty.

The Servicer may charge the Borrower for the cost of the inspection unless expressly prohibited by the Loan Documents.

An inspection by the Servicer is optional if the casualty loss is expected to be less than (i) $500,000, or (ii) 20% of the UPB, and none of the above conditions exist. If the Servicer elects not to inspect the Property, the Servicer must confirm during the next Property inspection, and document in its Servicing File, that the repair and restoration work was satisfactorily completed. If the Servicer determines that the repair or restoration work was not satisfactorily completed, the Servicer must notify Multifamily Inspections and Multifamily Loss Mitigation in writing, as required by Part V, Chapter 5.

Section 414.05. Documentation for Required Casualty Loss Property Inspections

After inspecting the Property, the Servicer must:

- retain in its Servicing File a copy of the completed Catastrophic Loss Inspection (Form 4261), and photographs of the damaged portions of the Property; and
- submit a copy of the Catastrophic Loss Inspection (Form 4261) and the photographs through the MAMP within 7 days after completing the Catastrophic Loss Inspection (Form 4261).

Section 414.06. Endorsement of Insurance Loss Draft or Check When Payable to Fannie Mae

Any insurance loss draft or check issued by the insurance carrier must be made payable to Fannie Mae in care of the Servicer, or as otherwise required by the mortgagee clause. Provided the Lender Contract contains nothing to the contrary, the Servicer is delegated the authority to endorse any insurance loss draft or check on Fannie Mae’s behalf, as follows:
Fannie Mae
By: [Name of Servicer]
By: [Name of Servicer's Authorized Signer]
[Title of Servicer’s Authorized Signer]

If any insurance loss draft or check made payable to Fannie Mae or the Servicer is cashed by the Borrower without proper endorsement by Fannie Mae or the Servicer, the Servicer must instruct the Borrower to send the funds to the Servicer within 5 Business Days. If the Borrower does not send the funds, the Servicer must contact Multifamily Asset Management immediately.

Section 414.07. Endorsement of Insurance Loss Draft or Check When Not Payable to Fannie Mae

If the insurance loss draft or check is payable to the Servicer, the Servicer is authorized to endorse the draft or check and apply the proceeds in accordance with this Section. The Servicer must also send the Insurer an Insurance Payee Notice Letter (Form 4803) so that all future insurance loss drafts and checks will be issued to Fannie Mae in care of the Servicer. The Servicer must retain a copy of the Insurance Payee Notice Letter (Form 4803) in its Servicing File.

Section 414.08. Insurance Loss Draft or Check Not Payable to Either Fannie Mae or Servicer

If the insurance loss draft or check is not made payable to either Fannie Mae or the Servicer, the Servicer must return it to the insurance carrier and request the loss draft or check be reissued in the name of Fannie Mae and sent to the Servicer. If the check has already been cashed by the Borrower, the Servicer must demand those funds be either paid by the Borrower to the Servicer and/or deposited in a Custodial Account meeting the requirements of Part V, Chapter 3.

Section 414.09. Application of Insurance Loss Proceeds

The Servicer must review the Loan Documents to confirm no contrary requirements exist regarding the application of insurance loss proceeds (e.g., where the Loan Documents require the noteholder to “reasonably” approve the application of insurance proceeds, where the noteholder is to apply commercially reasonable standards, or where the noteholder has the power to approve in its sole discretion).

A. Fannie Mae Determination Required

If any of the following conditions exist, Fannie Mae will determine, in its sole discretion, whether to require the insurance loss proceeds to be (i) applied to the UPB, or (ii) used to repair and restore the Property:

- a default has occurred and is continuing under the Loan Documents;
the combination of insurance proceeds and Borrower funds is insufficient to complete the necessary Property repairs for restoration to a condition fit for human habitation and meeting all applicable permitting requirements;

prior to the commencement of any restoration work, the Servicer determines that, upon completion of the repair and restoration work, the Property will not be capable of generating sufficient income to cover all operating expenses, required Replacement Reserve deposits, Principal and Interest on the Mortgage Loan, and required payments on any subordinate debt secured by the Property, or will otherwise meet a DSCR or other test required by the Loan Documents; or

the repair and restoration work will not be completed by the earlier of (i) the Maturity Date, or (ii) within 1 year from the date of the casualty loss.

B. Disposition of Insurance Loss Proceeds

Based upon the Borrower’s plan of action and the Servicer’s overall assessment, and provided none of the conditions listed in Section 414.04 exist, the Servicer has the authority to:

- hold the proceeds to incrementally reimburse the Borrower for the cost of repairing the damage and restoring the Property to habitable condition; or

- recommend to Fannie Mae that the proceeds be applied to the UPB of the Mortgage Loan by submitting a request through the MAMP.

Section 414.10. Property Restoration Requirements

All insurance loss proceeds will be held to reimburse the Borrower in increments for the cost of repairing the damage and restoring the Property. If the Property will be restored to habitable condition, the Servicer must:

- deposit all insurance loss proceeds in a Custodial Account meeting the requirements of Part V, Chapter 3, to incrementally reimburse the Borrower for the cost of repairing the damage;

- require the Borrower to deposit, in the same Custodial Account, funds equal to the difference between (a) the Servicer’s estimate of the total cost to repair and restore the Property to its pre-casualty condition, and (b) the amount of the insurance proceeds;

- for losses greater than $75,000, prepare and have the Borrower execute the applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) for use with the 6000 Series Loan Documents, or Insurance Loss Proceeds Collateral Agreement (Form 6639) for use with the 4000 Series Loan Documents, specifying the terms and conditions under which the funds held in the Custodial Account will be released to the Borrower; and
submit a copy of the applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639) through the MAMP.

The Servicer may waive the above requirement that the Borrower deposit additional funds into the Custodial Account if (i) the Servicer deposits all insurance loss proceeds into the Custodial Account, and (ii) determines that the Borrower, Key Principals, and Principals have sufficient funds to repair and restore the Property when the insurance loss proceeds alone are insufficient.

Within 7 days of execution, the Servicer must submit through the MAMP copies of the:

- Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639);
- Report of Multifamily Hazard Insurance Loss (Form 178); and
- if required and completed, a copy of the Multifamily Catastrophic Loss Inspection (Form 4261).

The Multifamily Catastrophic Loss Inspection (Form 4261) must be submitted through the MAMP within 7 days after the later of:

- the execution of the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639); or
- the completion of the Multifamily Catastrophic Loss Inspection (Form 4261).

The Servicer must retain in its Servicing File the original:

- Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639);
- Multifamily Catastrophic Loss Inspection (Form 4261); and
- Report of Multifamily Hazard Insurance Loss (Form 178).

Section 414.11. Commencement of Repair/Restoration Work

Before the Servicer disburses any funds to the Borrower for repair or restoration work the Servicer must:

- have an executed Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639);

- have on deposit in a Custodial Account all insurance loss proceeds and, unless waived as provided above, sufficient Borrower funds to cover the estimated cost to complete the repair and restoration work;
except in the case of minor casualties, have copies of all applicable building permits and other permits/authorizations required to carry out the repair and restoration work;

except in the case of minor casualties, review (or have a qualified professional review) and approve any plans and specifications relating to the repair and restoration work;

obtain from the Borrower the identities of each principal contractor, architect, and engineer who will be involved in the repair and restoration work, and be satisfied with their qualifications (including assurance each is appropriately licensed and bonded); and

obtain evidence of Builder’s Risk Insurance, if required, in accordance with Part IIIA, Section 322.

Any emergency work required to protect the Property or correct a condition threatening the health or safety of the tenants must be undertaken immediately by the Borrower, even if the foregoing requirements have not been complied with.

Section 414.12. Disbursements

A. Prerequisites for Disbursement of Funds

Before disbursing funds, including the final disbursement, to the Borrower for each disbursement request, the Servicer must be satisfied that:

all repair and restoration work has been completed in a good and workmanlike manner and in accordance with any applicable plans and specifications, as evidenced by submissions from the Borrower and, if applicable, by the Servicer’s or a qualified professional’s inspection of the completed work;

all related invoices for items and services have been paid, unless the Borrower has satisfied any applicable pre-conditions of the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639) for issuance of a joint check made payable to the Borrower and the Person owed funds;

the necessary release of Lien or Lien waivers have been submitted by all contractors, and no mechanics’ Liens, materialmen’s Liens, or other Liens are outstanding that have not been acceptably bonded over; and

the Borrower is not in default under any Loan Document, including the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).
B. Disbursing Funds

The Servicer must approve and disburse funds related to each Borrower request in accordance with the provisions of the applicable Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639). Funds must be disbursed no more frequently than once a month, unless:

- the Servicer determines that more frequent disbursements of funds are appropriate and can be managed effectively; or
- the disbursement is equal to or greater than $10,000, or is the final disbursement of proceeds.

C. Content of Disbursement Request

Each of the Borrower’s disbursement requests must be in writing and must specify, at a minimum:

- the specific repair and restoration work for which reimbursement is being sought;
- the quantity and price of all materials (grouped by type or category) or specific replacement items (e.g., appliances) purchased; and
- the cost of all contracted labor or other services.

The Borrower’s disbursement requests must be accompanied by:

- a Borrower certification that the repair and restoration work was completed in a good and workmanlike manner, in accordance with any plans and specifications previously approved by the Servicer, and in compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority, agency, or instrumentality having jurisdiction over the Property;
- copies of invoices and evidence of payment for all items and materials purchased and all labor and services provided, the cost of which exceeds the lesser of $25,000 or 1% of the Unpaid Principal Balance;
- a release of Lien from each contractor, subcontractor, or materialman providing services or materials, the cost of which exceeds the lesser of $25,000 or 1% of the Unpaid Principal Balance; and
- other relevant documentation required under the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

D. Disbursement Amount

The amount of each disbursement (other than the final disbursement) may not exceed the lesser of:
(i) an amount equal to:

- the actual cost of the repair and restoration work covered by the disbursement request, or, if the work was done under a contract or subcontract pursuant to which other work remains to be done, an amount equal to 90% of the actual cost of the repair and restoration work covered by the disbursement request (i.e., a 10% holdback is required if the work under the applicable contract or subcontract has not been completed in full); plus

- 100% of the cost of any materials used, or to be used, in connection with the repair and restoration work, if at the time of the disbursement request, title to the materials has passed to the Borrower and the materials have been installed, or are being properly stored, on the Property; OR

(ii) an amount equal to the difference between:

- the balance of the Collateral Agreement Custodial Account at the time of the disbursement request; and

- the estimated cost of all remaining repair and restoration work at that time of the disbursement request.

E. Final Disbursement; Notice to Fannie Mae

Upon satisfactory completion of all required repair and restoration work, and satisfaction of all other applicable conditions of the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639), the Servicer must:

- disburse all remaining funds to the Borrower; and

- notify Fannie Mae that all work has been satisfactorily completed by submitting through the MAMP a final Report of Multifamily Hazard Insurance Loss (Form 178).

F. Documentation in Servicing File

The Servicer must ensure that all actions taken with respect to each Borrower disbursement request are appropriately documented in its Servicing File.

Section 414.13. Borrower’s Failure to Diligently Pursue Repair

The Servicer must notify Multifamily Asset Management immediately if the Borrower fails to:

- proceed diligently with any necessary repair and restoration work;

- perform the work satisfactorily; or
perform in accordance with the terms of the Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreement (Form 6639).

The Servicer’s notice to Multifamily Asset Management must include a description of any steps that the Servicer is taking to resolve the situation.

Section 414.14. Reimbursement of Administrative Costs

If the insurance loss proceeds include funds specifically designated to defray administrative or inspection costs incurred by the mortgagee in connection with the casualty loss, the Servicer may reimburse itself from this designated amount for its actual, reasonable administrative or inspection costs. If no such provision is made by the insurer, the Servicer may not seek reimbursement for its costs from the proceeds, nor may the Servicer seek reimbursement separately from the Borrower.

Section 415. Casualty Losses – Non-Performing Mortgage Loans (05/21/18)

The Servicer must contact Multifamily Special Asset Management before performing a casualty loss assessment on a Property securing a Non-Performing Mortgage Loan. Fannie Mae will determine whether the Servicer should proceed with the assessment, and direct the Servicer accordingly. Any activity or action plans to repair or restore the Property must be approved by Fannie Mae. All insurance loss drafts and checks must be forwarded to Fannie Mae for endorsement and disposition.

Section 416. Credit Facilities and Bulk Deliveries (05/21/18)

Section 416.01. General

Each Credit Facility and Bulk Delivery transaction is different, therefore the requirements in this Section may not apply to every transaction. The Servicer must refer to the applicable Master Credit Facility Agreement, Bulk Delivery agreement, and other Loan Documents for specific requirements.

Section 416.02. Delegation of Decisions

Credit Facility and Bulk Delivery requests are delegated to the Servicer as described below.

A. Decisions and Actions Not Delegated

Decisions and actions are not delegated to the Servicer when a request involves:
amendments or changes to the Master Credit Facility Agreement, Bulk Delivery Agreement, or equivalent agreement, except for the Fannie Mae standard form (i) Amendment for Completion/Repair extensions, and (ii) changes to the monthly Replacement Reserve deposits;

- Supplemental Mortgage Loans or borrow-ups (future advances);
- additions, releases, or substitutions of collateral;
- revaluation and determination of the Allocable Facility Amount;
- Transfers/Assumptions;
- the interest rate conversion from variable to fixed on a SARM Loan;
- Interest Rate Hedge renewals or modifications;
- refinances;
- defeasance;
- payoffs/terminations;
- Ground Lease or operating lease modifications; or
- Property management or operator changes.

B. Decisions Delegated by the Delegated Transaction Form 4636 Series

Decisions and actions covered by the Delegated Transaction Forms (Form 4636 series) are delegated to the Servicer as set forth in the applicable Form 4636. For these requests, the Servicer must submit the completed Delegated Transaction Form (Form 4636) through the MAMP.

C. Other Delegated Decisions and Actions

Decisions and actions involving the following are delegated to the Servicer to the extent delegated in this Chapter:

- Letter of Credit replacements and draws;
- Amendment to Multifamily Loan and Security Agreement (Restoration Reserve) (Form 6615) or Insurance Loss Proceeds Collateral Agreements (Form 6639);
- endorsing insurance checks;
- Completion/Repair Agreement extensions;
- changes to the monthly Replacement Reserve deposits;
- administering escrow accounts; and
- administering Collateral Agreements.

If the Servicer has any questions regarding the need for Fannie Mae approval, the Servicer must contact Multifamily Structured Asset Management prior to proceeding.
**Section 416.03. Approval Requests**

If Fannie Mae approval is required, the Servicer must submit a request through the MAMP. Any approval request must include the Servicer’s recommendation, any supporting documentation (including references to the relevant sections of the governing documents), and the Servicer’s analysis supporting its recommendation.

**Section 416.04. Release and Substitution Requests**

To the extent permitted by the provisions of the Master Credit Facility Agreement, Bulk Delivery Agreement, and the other Loan Documents, Borrowers may have the ability to release or substitute collateral. These requests must follow the provisions of the Loan Documents, and are not delegated under this Section.

The Borrower must initiate the release/substitution process by submitting a written request to the Servicer. Upon receipt, the Servicer must submit a release/substitution request package through the MAMP that includes the Servicer’s summary of the Borrower’s release/substitution request, and:

- the Servicer’s recommendation regarding the requested release/substitution;
- any waiver requests, together with the Servicer’s recommendation for each waiver;
- when the Borrower expects the release/substitution to close;
- whether the Property meets all conditions to release/substitute and compliance tests (e.g., LTV, DSCR, geographic/asset concentration) stipulated in the Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents;
- for Credit Facilities, the release price and calculations (calculated according to the terms of the Master Credit Facility Agreement and other Loan Documents);
- for Credit Facilities, the remaining Allocable Facility Amount (AFA) balance of the facility and each property after the release;
- the amount of the release/substitution fees associated with the transaction;
- whether a Prepayment or advance of funds is expected to occur in connection with the transaction;
- a spreadsheet showing the loan level and collateral level data for the Structured Transaction before the release/substitution occurs;
- a spreadsheet showing the loan level and collateral level data for the Structured Transaction after the proposed release/substitution occurs;
- third party reports; and
- any other items required by the Loan Documents.
The “before” and “after” spreadsheets must be submitted using the Structured Facilities Monitoring Spreadsheet (Form 4802).

If a Letter of Credit or cash collateral is required as part of the request, the Servicer must enter the Letter of Credit or cash collateral information in MSFMS. Any Letter of Credit must meet the requirements of Part IIIA, Section 207. Original Letters of Credit must be sent to Multifamily Structured Acquisitions.

If the request is approved, the Servicer must:
- submit its payoff calculations to Multifamily Structured Acquisitions;
- release the collateral from the MSFMS system; and
- if necessary, release, update, and verify any interest rate hedges associated with the transaction in MSFMS.

Section 416.05. Facility Revaluations

Revaluations of Credit Facilities and Bulk Deliveries occur as required by the Master Credit Facility Agreement and Bulk Delivery Agreement. Servicers must send recommended property cap rates and values along with supporting market information through the MAMP. Upon completion of Fannie Mae’s review, the Servicer will be notified of the final cap rate determination and valuation. The Servicer must promptly notify the Borrower of the revised cap rates, Property values, Allocable Facility Amounts, LTV, and the failure to meet any compliance tests (if applicable). The Servicer must attach a copy of this Borrower correspondence to the request in the MAMP.

Section 416.06. Supplemental Mortgage Loans Not Permitted

Supplemental Mortgage Loans on Properties that are part of a Credit Facility or a Bulk Delivery are not permitted unless expressly authorized under the Master Credit Facility Agreement, Bulk Delivery Agreement, and other Loan Documents. The Servicer must contact Multifamily Structured Asset Management before underwriting a Supplemental Mortgage Loan.

Section 416.07. Additional Information

For any issue not covered in this Section, or if the Servicer requires a more detailed explanation, contact Multifamily Structured Asset Management.
Section 417. Seniors Housing Properties (05/21/18)

Section 417.01. General

The requirements in this Section may not apply to every Seniors Housing Loan. The Servicer must refer to the Loan Documents for specific requirements.

Section 417.02. Decisions and Actions Delegated and Not Delegated

Decisions and actions covered by the Delegated Transaction Form 4636 Series are delegated to the Servicer as set forth in the applicable Form 4636 or the Guide. For these requests, the Servicer must submit the completed applicable Form 4636 through the MAMP. Decisions and actions for Seniors Housing Loans regarding the following are not delegated to the Servicer:

- Seniors Housing Expansions/Conversions, including constructing additional units, substantial alterations, Seniors Housing Major Renovations, and Seniors Housing Minor Renovations;
- changes in the Seniors Housing Operator;
- changes in Property management or management agreements;
- changes in licensing (Note: All licensing changes require an Opinion of Borrower’s Counsel on Origination of Mortgage Loan (Seniors Housing Licensing) (Form 6450.SRS) confirming that all licensing requirements have been met);
- Seniors Housing Operator Leases; and
- master leases.

If the Servicer has any questions regarding the need for Fannie Mae approval, the Servicer must contact Multifamily Seniors Housing Property Asset Management before proceeding.

Section 417.03. Approval Requests

The Servicer must refer to the Loan Documents and this Section to determine whether Fannie Mae approval is required for a particular request. If Fannie Mae approval is required, the Servicer must submit a request through the MAMP. Any approval request must include the Servicer’s recommendation, any supporting documentation (including references to the relevant sections of the governing documents), and the Servicer’s analysis supporting its recommendation.

Section 417.04. Seniors Housing Expansion/Conversion Requests

Unless expressly permitted by the Loan Documents, requests by the Borrower for the construction of additional units, renovation, or expansion of a Seniors Housing Property, or a change in the overall percentage of one Seniors Housing type of unit (e.g., Independent Living, Assisted Living, or Alzheimer’s/Dementia Care) into another are not delegated to the Servicer.
The Borrower must request approval from the Servicer and Fannie Mae before proceeding, and Fannie Mae will consider these requests under the following parameters, conditions, and requirements:

A. Permitted Purpose

To allow for the construction of additional units on existing land, or the renovation and/or repositioning of existing units:

- a “Seniors Housing Major Renovation” is any physical improvement costing in excess of (i) $20,000/unit, or (ii) $3 million in total project costs; and

- a “Seniors Housing Minor Renovation” is any physical improvement that is not a Seniors Housing Major Renovation, but which increases the number of units, or converts one type of unit into another, unless expressly permitted by the Loan Documents.

B. Submission Requirements

Upon receipt of a Borrower Seniors Housing Expansion/Conversion Request, the Servicer must submit a written request through the MAMP, and include the following:

- Sponsor name and experience in operating seniors housing properties;
- Mortgage Loan performance;
- financial performance (including NCF and UPB history, and DSCR and LTV trends);
- pro forma financial statements;
- sources/uses of funds statement;
- project budget, scope, and plans;
- market study;
- construction contract and timeline;
- Servicer’s monitoring plan;
- licensure issues;
- insurance; and
- general contractor and major subcontractors.

Fannie Mae will review the completed request, and approve or decline the request in its sole discretion.
C. Requirements and Monitoring

For a Seniors Housing Expansion/Conversion Request approved by Fannie Mae, the following requirements will apply:

- Escrow:
  - the Borrower must escrow 25% of the estimated construction costs with the Servicer, who will administer the funds through a standard construction draw process; and
  - the Borrower must demonstrate to the Servicer’s satisfaction that it has sufficient liquid assets to complete the construction;
- Minimum Debt Service Coverage (DSCR) during the expansion/conversion period cannot fall below 1.15x;
- Completion of construction must occur no later than 18 months from the date of commencement;
- Construction monitoring requirements will be set forth in the approval letter;
- Fannie Mae will charge a construction monitoring fee which does not cover the expenses associated with third-party inspections;
- Completion Guaranty (Form 6018, 6632, or 6633) and, if determined applicable by Fannie Mae, an Agreement and Assignment Regarding General Contractor’s Contract (Form 6473), and an Omnibus Assignment of Contracts, Plans, Permits, and Approvals (Form 6473), will be required;
- Fannie Mae will charge a change in use fee, and the Servicer may charge additional fees at its discretion, subject to approval by Fannie Mae;
- The Borrower must reimburse all legal costs incurred by Fannie Mae; and
- A fixed-price general construction contract provided by a general contractor, together with a payment and performance bond issued by an acceptable surety, will be required.

D. Construction Completion Requirements

Within 60 days of completing any Seniors Housing Major Renovation or Seniors Housing Minor Renovation, the Borrower must deliver to the Servicer, and the Servicer must provide to Fannie Mae, the following:

- title endorsement to the existing mortgagee title policy, confirming that no mechanics’ Liens, materialmen’s Liens, or other Liens exist that have not been acceptably bonded over;
- final lien waivers from all contractors, architects, subcontractors, and material suppliers;
copies of updated or newly issued certificates of occupancy;
renewed licenses;
confirmation in the form of an Opinion of Borrower’s Counsel on Origination of Mortgage Loan (Seniors Housing Licensing) (Form 6450.SRS) that all licensing requirements have been met;
certificate from the Borrower, architect, and contractor certifying to the Servicer, for the benefit of Fannie Mae, that the improvements:
  - are completed in accordance with the plans and specifications approved by Fannie Mae; and
  - meet the local zoning and planning restrictions, and all other governmental requirements;
final inspection of completed Improvements;
updated certified operating statement and rent roll for the Seniors Housing Property; and
a survey showing any new Improvements on the Seniors Housing Property.

E. Request Changes in Unit Count/Mix in the MAMP

Within 60 days of completion of any Major Renovation or Minor Renovation, the Servicer must request any applicable change in unit count and/or unit mix (IL/AL/ALZ) in the MAMP resulting from the renovation.

Section 418. Asset Management for Credit Enhancement Mortgage Loans and Multifamily Affordable Housing Properties (05/21/18)

Section 418.01. Bond Transactions and Credit Enhancement Mortgage Loans

For any Credit Enhancement Mortgage Loan where Fannie Mae is providing Credit Enhancement for tax-exempt multifamily housing Bonds, the Borrower must provide the Servicer with a copy of the compliance monitoring statement required under the Bond Documents. If the Borrower’s statement reflects non-compliance with the low- and moderate-income tenant occupancy requirements set forth in the Affordable Regulatory Agreement, or if the Borrower fails to provide the statement to the Servicer, the Servicer must notify Multifamily Asset Management, and retain the compliance monitoring statement in its Servicing File.
Section 418.02. Compliance Issues Relative to Bond Credit Enhancement Transactions

The Servicer must monitor the Interest Reserve Requirement, if any, under the Bond Trust Indenture with respect to each Credit Enhancement Mortgage Loan.

The Servicer must monitor the rating of the institution in which the accounts under any Cash Management, Security, Pledge, and Assignment Agreement are held, and must require the Borrower to move the accounts if the rating no longer meets Fannie Mae’s requirements as provided in Part V, Chapter 3.

Section 418.03. Monitoring Compliance; Notification of Noncompliance

A. Affordable Regulatory Agreement

At least once in each calendar year (and more often if directed by Fannie Mae), the Servicer must obtain a Borrower certification that the Property is in full compliance with:

- the rules qualifying the interest on the Bonds for exclusion from gross income for federal income tax purposes pursuant to the Internal Revenue Code; and
- the requirements of the Affordable Regulatory Agreement.

The Servicer must review the Borrower certificate, and if the Property does not comply with all applicable regulatory requirements, the Servicer must immediately notify Multifamily Asset Management. Neither Fannie Mae nor the Servicer is responsible for determining or ensuring the Borrower’s compliance under the Affordable Regulatory Agreement.

B. Default Notice for Failure to Comply with the Bond Documents

The Servicer must promptly notify Multifamily Asset Management, the Borrower, the Bond Trustee, and the Issuer in writing of any default by a Borrower with any provision of any Loan Document, Reimbursement Agreement, Security Agreement, the Affordable Regulatory Agreement, or other Loan Document, Credit Enhancement Document, or Bond Document.

The Servicer must promptly forward to Multifamily Asset Management copies of any notices received from a Borrower, Bond Trustee, Issuer, or any other party regarding any default by a Borrower, and shall maintain ongoing contact with Fannie Mae regarding the status of the Credit Enhancement Mortgage Loan in accordance with the requirements of Part V, Chapter 7.

Section 418.04. Multifamily Affordable Housing (MAH) Properties

For any Multifamily Affordable Housing Property, the Servicer must collect from the Borrower annual compliance documentation in the form of the annual recertification of the
Property’s compliance with the Affordable Regulatory Agreement or from the agency or entity that imposed any applicable rent or occupancy restrictions or, if not available, an explanation of why it is not available. Additionally, for any MAH Property subject to Low Income Housing Tax Credits, the Servicer must collect annual copies of the tax and other compliance forms specified in Part IIIB, Chapter 7, and must immediately notify Multifamily Asset Management if this documentation reveals any issues. The Servicer must retain the annual compliance documentation in its Servicing File.

**Section 418.05. Low Income Housing Tax Credits**

If the Property is subject to a Low Income Housing Tax Credit allocation, the Servicer will obtain, at least once in each calendar year (and more often if directed by Fannie Mae), the following:

- Borrower certifications of the Property’s compliance with the requirements of the Internal Revenue Code regarding Low Income Housing Tax Credits. If the Borrower indicated that the Property does not comply with all applicable regulatory requirements, the Servicer must immediately notify Multifamily Asset Management; and
- if the Low Income Housing Tax Credits have not yet been syndicated, monthly reports from the Borrower detailing the Borrower’s progress in syndicating the tax credit allocation until the syndication is completed.

Neither Fannie Mae nor the Servicer is responsible for determining or ensuring the Borrower’s compliance with Low Income Housing Tax Credit requirements. The Servicer also must comply with the information requirements of Part III B, Chapter 7.

**Section 418.06. Restabilization Reserve**

Most disbursements from a Restabilization Reserve require Fannie Mae’s approval. The Servicer is delegated the authority to approve, without Fannie Mae’s consent, a Borrower request for a final disbursement, provided:

- the Servicer has received written evidence that the HAP Contract has been extended by HUD through the Maturity Date with no material changes to its terms;
- no default has occurred and is continuing under the Loan Documents; and
- the Loan Documents explicitly allow a final disbursement under these conditions.

The Servicer must submit through the MAMP a copy of the new HAP Contract for all releases, and retain in the Servicing File a copy of the new HAP Contract and the Borrower request for release of the Restabilization Reserve.
Part V – Servicing and Asset Management

Chapter 5 – Asset Management: Surveillance

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Chapter 5 – Surveillance

Section 501. General (05/21/18)

Each Property securing a Mortgage Loan must be monitored by the Servicer to ensure that the Borrower continually manages and maintains the Property in accordance with the requirements of the applicable Loan Documents and the Guide. The Servicer is required to:

- perform inspections of the Property;
- perform a financial analysis of the operations of Property; and
- report the results of such inspections and financial evaluations to Fannie Mae as required by this Chapter.

The financial analysis of operations should include an annual and, if required for that Asset Class, quarterly analysis of the financial performance of the Property.

Property inspections generally should include:

- an on-site inspection;
- a current overall Property rating based on the condition of the Property as of the date of the inspection (and not on projected or budgeted repairs);
- an evaluation of the Property’s market, submarket, and neighborhood; and
- an analysis of the competitive position of the Property.

Based upon the results of its inspections and financial analysis, the Servicer must evaluate the performance of the Property, and identify any Property that warrants special attention due to management or maintenance issues, or any financial decline that could materially adversely affect the collateral or performance of the Mortgage Loan. If follow-up action is required, the Servicer must notify Fannie Mae as provided in this Chapter, and initiate appropriate actions with the Borrower.

Section 502. Property Inspections (05/21/18)

Section 502.01. MBA Master Inspection Form

The MBA Master Inspection Form must be used for all Property inspections, unless a Catastrophic Event has occurred, and the Servicer must complete the Fannie Mae Property inspection rating on the Fannie Mae Assessment Addendum ("Fannie Mae Assmt Addendum") tab of the MBA Master Inspection Form. For any inspection after a Catastrophic Event, the Servicer must instead use the Multifamily Catastrophic Loss Inspection form (Form 4261).

The following tabs of the MBA Master Inspection Form must be completed for all Property inspections:
General Information Tab (“General Info”);
Physical Condition & Deferred Maintenance Tab (“Physical Condition & DM”);
Photos Tab (“Photos”);
Rent Roll Tab (“Rent Roll”);
Maps Tab (“Maps”);
Management Interview Tab (“Mgmt Interview”);
Multifamily Tab (“Multifamily”);
Fannie Mae Assessment Addendum (“Fannie Mae Assmt Addendum”); and
For Seniors Housing properties only: Seniors Supplement Tab (“Senior Supplement”).

Section 502.02 Mortgage Loans with Property Condition Concerns (Not Limited to Watchlist Loans)

Regardless of whether or not the Mortgage Loan is listed on either the Servicer Watchlist or the Fannie Mae Watchlist, the Servicer must inform Multifamily Inspections and Multifamily Watchlist within 10 Business Days after becoming aware of any Mortgage Loan with:

- a Property inspection rating of 4 or 5 as shown on the Fannie Mae Assessment Addendum (“Fannie Mae Assmt Addendum”) tab of the MBA Master Inspection Form;
- Property repairs required by the Loan Documents not completed timely;
- any significant deferred maintenance;
- any non-significant deferred maintenance that has not been corrected within 12 months after notifying the Borrower of such maintenance obligation; or
- life safety concerns.

In addition, if any of the above Property condition concerns are present, the Servicer must:

- reinstate any suspended requirements for the Completion/Repair Escrow or the Replacement Reserve Account unless the rating of 4 or 5 results from a casualty loss (see Section 502.06);
- inspect the Property as frequently as necessary to ensure the Borrower is resolving outstanding deferred maintenance items; and
- prior to ordering a Property Condition Assessment (“PCA”) (excluding regularly-scheduled PCAs required by the Loan Documents), submit a written request for approval to Multifamily Watchlist.
Section 502.03. Property Inspection Protocols

The frequency of required Property inspections depends on the following:

- the Mortgage Loan’s Fannie Mae risk rating;
- the Mortgage Loan amount at the Mortgage Loan Origination Date; and
- other criteria outlined in the table 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</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>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
<td></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>Substandard or Doubtful</td>
<td>Annual Full Inspection</td>
<td>10%</td>
<td>10/20</td>
<td>15</td>
<td>In-House Only</td>
<td></td>
</tr>
<tr>
<td>DUS Plus</td>
<td>All Ratings</td>
<td>Annual Full Inspection (maximum of 20 units)</td>
<td>10%</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 $3,000,000 ($5,000,000 or More in Eligible MSAs) and up to $30,000,000

(\textbf{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$^1$</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 and DUS Plus</td>
<td>Pass or Special Mention; DSCR (\geq) 1.35 or Coop DSCR (\geq) 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 &lt; 1.35 or Coop DSCR &lt; 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$^3$</td>
<td>Follow requirements for applicable Mortgage Loan type.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage Loan Type</td>
<td>Fannie Mae Mortgage Loan Rating</td>
<td>Inspection Frequency</td>
<td>Minimum % of Total Units to be Inspected&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Minimum/Maximum Number of Units to be Inspected&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Minimum Required Photographs</td>
<td>Third Party or In-House Inspector</td>
</tr>
<tr>
<td>--------------------</td>
<td>--------------------------------</td>
<td>----------------------</td>
<td>-----------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>---------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>All Mortgage Loans other than Seniors Housing Mortgage Loans</td>
<td>Pass or Special Mention, and original Mortgage Loan amount &lt; $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 $750,000 to $3,000,000</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>Pass or Special Mention, and original Mortgage Loan amount &gt; $3,000,001 and ≤ $5,000,000 in Eligible MSAs</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 ≤ $3,000,001 ($5,000,000 in Eligible MSAs)</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&lt;sup&gt;3&lt;/sup&gt;</td>
<td>Follow requirements for applicable Mortgage Loan type.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<sup>2</sup> 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.

<sup>3</sup> 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.

Section 502.04. Property Inspection Frequency; Submission of Property Inspection Forms

A. Timing of Property Inspections

Property inspections must be performed at the frequency set forth in Section 502.03, and must be completed in sufficient time for the Property inspection form to be submitted by the “Submission Due Date” shown in the Multifamily Asset Management Portal (“MAMP”).

To facilitate more efficient scheduling of the physical inspections for Properties, the Servicer may request an extension of up to 60 days from the “Submission Due Date”. The extension request will be automatically approved so long as:

- it is submitted prior to the original “Submission Due Date” by using the “Modification Request” tab within the particular work item in the MAMP;
- an extension was not already granted for the same Property inspection requirement;
- the Mortgage Loan is not rated Substandard or Doubtful, nor has a Property condition rating of:
  - 4 or 5 on the most recent inspection; or
  - 3 on an inspection more than one year old; and
- the extended “Submission Due Date” is not within the 6 months prior to the Maturity Date.

B. Submission of Property Inspection Forms

All Property inspection forms must be submitted to Fannie Mae through the MAMP. Origination inspections must be submitted within 45 days after the date the Mortgage Loan was purchased by Fannie Mae. Thereafter, each required Property inspection form must be submitted within 60 days after the date of the actual Property inspection, and no later than the “Submission Due Date” shown in the MAMP, unless an extension was granted by Fannie Mae. The Servicer must resolve any issues identified by Fannie Mae during its review of the Property inspection reports in a timely manner.
Section 502.05. Property Inspector Qualifications

A. Minimum Inspector Experience

Inspections must be performed by either a qualified third party or Servicer staff as specified in the Property Inspection Protocol chart in Section 502.03. The Servicer is responsible for ensuring that the inspector has at least the minimum level of experience required to conduct a Fannie Mae inspection. At a minimum, the inspector must have completed an acceptable “Property Inspection Risk Management” course or other acceptable training course, including the courses provided by the Mortgage Bankers Association (“MBA”), and must have previous inspection experience as follows:

<table>
<thead>
<tr>
<th>Mortgage Loan Rating</th>
<th>Minimum Previous Inspection Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pass and Special Mention Mortgage Loans (except Seniors Housing Mortgage Loans)</td>
<td>10 multifamily property inspections</td>
</tr>
<tr>
<td>Substandard and Doubtful Mortgage Loans (except Seniors Housing Mortgage Loans)</td>
<td>25 multifamily property inspections</td>
</tr>
<tr>
<td>Seniors Housing Mortgage Loans</td>
<td>10 Seniors Housing property inspections</td>
</tr>
</tbody>
</table>

B. Third-Party Inspector Requirements

If the Property Inspection Protocol chart in Section 502.03 permits a third-party inspector, the third-party inspector cannot reassign responsibilities to another person or entity without the Servicer’s approval. Any third-party inspector must:

- have no financial interest in the Property to be inspected;
- demonstrate experience in multifamily real estate property inspections;
- be experienced in the market in which the Property is located; and
- either:
  - possess a professional certification from any one of the following:
    - Real Estate Assessment Center for the Department of Housing and Urban Development (“HUD”) as a Certified Home Inspector;
    - American Society of Home Inspectors (“ASHI”);
    - International Association of Certified Home Inspectors (“InterNACHI”); or
    - State certified home inspector;
  - be a registered architect;
  - be a civil engineer; or
☐ have successfully completed an acceptable in-person training course in lieu of the above. (Note: On-line attendance at such course is not acceptable.) Acceptable training courses include the Fannie Mae approved inspection course provided by the MBA.

Fannie Mae reserves the right, in its sole discretion, to notify the Servicer that a third-party inspection firm is no longer acceptable to Fannie Mae.

Section 502.06. Content of Property Inspections

A. Number of Units to be Inspected; “Down” Units

The requirements specified in the Property Inspection Protocol chart in Section 502.03 are minimum numbers of occupied and vacant units that must be inspected. In addition to occupied and vacant units, all “down” units (i.e., units that are not rentable at the current time, or that cannot be rented in the normal course of business) must be inspected as part of the Property inspection. If the Property inspector notes substantial physical concerns that warrant further investigation, the Servicer must determine whether it is prudent to inspect additional units over and above the number of units required to be inspected.

B. Selection of Units to be Inspected

The Multifamily Asset Management Portal will indicate, for each Property, the number of units required to be inspected. When units are required to be inspected, the Servicer must determine the appropriate combination of vacant and occupied units for inspection. The units selected for inspection must meet the following requirements:

- a minimum of 50% of all units inspected must be vacant units (if available);
- at least 2 occupied units must be inspected; and
- if selected, the interior of each unit must be inspected.

The Property inspector, not the Property manager, must select which vacant and occupied units will be inspected.

C. Photographs

The Property Inspection Protocol chart in Section 502.03 indicates, for each Asset Class, the minimum number of photographs required to be submitted with the Property inspection form. Such photographs must include views and identifying captions of:

- signage;
- typical building front;
- site office and clubhouse (if applicable);
- Property frontage;
- apartment interior;
- amenities;
- major building systems;
- deferred maintenance and life safety items;
- extraordinary repair items or items requiring capital expenditure; and
- all critical or substantial issues noted in the inspection report.

D. Consultation with Property Manager and Staff

For Property inspections other than walk-around inspections, the Servicer must interview the Property manager and other on-site staff to obtain information regarding the Property's condition and performance, and to confirm that any life/safety repair and deferred maintenance items noted on the most recent Property inspection have been corrected.

E. Analysis of Market

The Servicer must evaluate the neighborhood, submarket, and market in which the Property is located to determine material shifts in demographics and real estate conditions. The Servicer must also evaluate competitive properties to determine any changes in the competitive position of the Property since the initial underwriting or the most recent Property inspection.

F. Analysis of Collateral

If the Servicer determines that repair or maintenance is required, the Servicer must notify the Borrower according to the notice provisions of the Loan Documents. The notice must:

- be sent within 45 days from the date of the actual inspection;
- identify the repair or maintenance issues;
- include any accompanying photos; and
- direct the Borrower to undertake timely corrective actions to remedy the issues.

The Servicer must follow-up until the work has been successfully completed. If the Borrower fails to perform all repairs or maintenance required by the Servicer within a specified period of time, the Servicer must notify Multifamily Inspections in writing with a recommendation for resolution.

The Property inspection overall rating must be set to 4 (or 5 depending on severity or other existing issues), if:

- a casualty loss causes damage in an amount equal to the lesser of (i) 25% of the current Unpaid Principal Balance, or (ii) $1,000,000; or
- 10% or more of the units are down due to any reason.
Setting the rating to 4 (or 5, as applicable) will not automatically put the Mortgage Loan on Fannie Mae’s Watchlist, nor will it trigger the requirement (i) for an Action Plan; or (ii) to reinstate the Replacement Reserve, as long as:

- no other performance related issues otherwise increase the credit risk; and
- the Servicer expects sufficient insurance proceeds will be available to restore the Property to its original condition.

If Fannie Mae determines that a Property inspection is inadequate, Fannie Mae reserves the right to require a new Property inspection be performed by either the Servicer or a third party designated by Fannie Mae at the expense of the Servicer.

G. Life Safety Issues

If the inspection is conducted by a third-party inspector and reveals any Property life safety issues, the inspection firm must notify the Servicer of such issues within 3 Business Days after completion of the inspection.

Section 502.07. Servicer Property Inspection Quality Control Requirements

A. Review of Inspection Forms

All Property inspection forms, whether prepared by third parties or by the Servicer, must be reviewed internally by the Servicer prior to submission to Fannie Mae.

B. Quality Control Program

Servicers are required to have a quality control program in place to annually review the quality of the Property inspections performed by third party inspectors. The Servicer must be prepared to show the evidence and results of such quality control program to Fannie Mae upon request.

Section 502.08. Retention of Inspection Forms

All Property inspection forms must be maintained in the Servicing File for at least 2 inspection cycles and made available for verification by Fannie Mae upon request.

Section 502.09. Other Property Inspections; Inspection Fees

In addition to performing the Property inspections required in this Section, Fannie Mae, in its sole discretion, may require that the Servicer perform additional Property inspections whenever circumstances warrant. In addition, the Servicer is expected to perform Property inspections as part of its regular asset management responsibilities whenever the Servicer determines it prudent to do so.
The Servicer may charge the Borrower a reasonable fee for performing Property inspections provided that charging a fee:

- is permitted under the Loan Documents or another written agreement with the Borrower; and
- is not specifically precluded by Fannie Mae.

Section 503. Quarterly and Annual Financial Analysis of Operations (05/21/18)

Section 503.01. Electronic Reporting of Financial Analysis of Operations

The Servicer must submit quarterly and annual Financial Analysis of Operations reports (Form 4254) to Fannie Mae for each Property in accordance with the requirements of this Section. All reports are found on, and must be submitted electronically through, the MAMP.

Section 503.02. Request for Waivers of Quarterly and Annual Reporting on Financial Analysis of Operations

A. Waivers for Reasons Other Than Unresponsive Borrowers

The Servicer must submit a waiver through the MAMP for each Property if a Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) is required by this Section, and:

- the Mortgage Loan was purchased from a Lender whose Lender Contract specifies that the collection of Property operating statements for any Mortgage Loan is not required;
- the Loan Documents either do not permit the Lender to collect, or require the Borrower to submit, financial reports; or
- the Mortgage Loan:
  - was liquidated in the current quarter (for waivers of quarterly reporting) or year (for waivers of annual reporting), prior to the Financial Analysis of Operations submission deadline;
  - was delivered under a Forward Commitment and has not yet converted to a permanent loan;
  - was defeased;
  - is subject to FHA or HUD risk sharing;
  - is being managed by Fannie Mae’s Special Asset Management; or
  - was acquired by Fannie Mae in the current reporting year and less than 6 months of operating data is available for the Property.
B. Waivers due to Unresponsive Borrowers

If the Servicer is unable to submit an annual or quarterly Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) report for a Property because the Borrower failed to provide the requested operating statements, before submitting a waiver request, the Servicer should:

- for the annual Financial Analysis of Operations, wait until 6 months have passed from the submission due date to submit a waiver request in the MAMP; and
- for a quarterly Financial Analysis of Operations, wait until the following quarterly submission due date to submit a waiver request in the MAMP.

Delaying the submission of the waiver request will provide additional time to obtain and submit the operating statement data, if received. If the Borrower fails to respond to at least 3 written requests within the applicable waiting period specified above, the waiver request should then be submitted, with the following condition:

“Unresponsive Borrower - The Borrower was contacted in writing at least 3 times and failed to provide the requested operating statements.”

Fannie Mae will review the waiver requests, and will notify the Servicer if additional information is required. If quarterly or annual operating statements are received after a waiver has been granted, the Servicer must submit the Financial Analysis of Operations report (Form 4254 or Form 4254.Seniors) upon receipt of such operating data.

Section 503.03. Quarterly Reporting on Financial Analysis of Operations

A. Quarterly Reporting Requirements

The Servicer must submit detailed quarterly operating statements for each Property, normalized to account for any seasonal variations in income and expenses, in accordance with the requirements set forth for each Asset Class in the charts below. The reports must be submitted through the MAMP. All submitted operating statements will undergo automated quality control testing, and any quality control issues identified must be resolved timely.

The quarterly operating statements must reflect the actual physical occupancy level for the Property as of the end of each quarter, based on the most recently available rent roll. When quarterly reports are required, the Servicer must provide actual expenses, and must normalize certain expense items, including, but not limited to, real estate taxes, casualty insurance, Capital Expenditures (Replacement Reserves), and management fees, consistent with the guidance provided in the MAMP for submitting annual financial statements. The Servicer must explain any seasonal data discrepancies, and provide comments if any of the following are observed:
- a variance of greater than 20% from the same reporting period in the prior year of any of Effective Gross Income, total operating expenses, Gross Potential Rent, Private Pay, Medicare/Medicaid, Repairs and Maintenance, Utilities, Water and Sewer, Real Estate Taxes and Property Insurance;
- a variance in physical occupancy of greater than 10% from the immediately preceding reporting period;
- a change in the Property’s tax-exempt status (if applicable);
- a change in the required Principal and Interest payments during a reporting period (e.g., interest-only to amortizing);
- management fees of less than 3%;
- a change in any other pertinent information related to the Property financial analysis; or
- the Mortgage Loan is on the Fannie Mae Watchlist.

Quarterly financial reporting is not required, and no waiver need be submitted, for any Mortgage Loan if it is secured by a Cooperative Property, or it is a Small Mortgage Loan, unless such Cooperative Property or Small Mortgage Loan is on the Fannie Mae Watchlist.

B. Quarterly Submission Requirements by Asset Class

1. All Asset Classes (except Seniors Housing Properties, Watchlist Properties, Credit Facilities, and Bulk Deliveries). The Servicer must submit detailed quarterly operating statements 75 days after the end of the second and third quarters, as set forth below.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Due Date*</th>
<th>Required Information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Property with a 12/31 Fiscal Year End</td>
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<tr>
<td></td>
<td></td>
<td>Property with other than a 12/31 Fiscal Year End</td>
</tr>
<tr>
<td>Second</td>
<td>September 15</td>
<td>Financial operating statements for the period from January 1 through June 30</td>
</tr>
<tr>
<td>Third</td>
<td>December 15</td>
<td>Financial operating statements for the period from January 1 through September 30</td>
</tr>
</tbody>
</table>

*If any due date is not a Business Day, then the submission may be made on the next Business Day.
2. **Seniors Housing Properties.** For Seniors Housing Properties, the Servicer must submit detailed quarterly operating statements 75 days after the end of the first, second, third and fourth quarters, as set forth below.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Due Date*</th>
<th>Required Information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Property with a 12/31 Fiscal Year End</td>
</tr>
<tr>
<td>First</td>
<td>June 15</td>
<td>Financial operating statements for the period from January 1 through March 31</td>
</tr>
<tr>
<td>Second</td>
<td>September 15</td>
<td>Financial operating statements for the period from April 1 through June 30</td>
</tr>
<tr>
<td>Third</td>
<td>December 15</td>
<td>Financial operating statements for the period from July 1 through September 30</td>
</tr>
<tr>
<td>Fourth</td>
<td>March 15</td>
<td>Financial operating statements for the period from October 1 through December 31</td>
</tr>
</tbody>
</table>

*If any due date is not a Business Day, then the submission may be made on the next Business Day.*
3. **Watchlist Properties.** For Watchlist Properties (including any Mortgage Loan secured by a Cooperative Property or any Small Mortgage Loans), the Servicer must submit detailed quarterly operating statements 90 days after the end of the first quarter, and 75 days after the end of the second and third quarters, as set forth below.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Due Date*</th>
<th>Required Information</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Property with a 12/31 Fiscal Year End</td>
</tr>
<tr>
<td>First</td>
<td>June 30</td>
<td>Financial operating statements for the period from January 1 through March 31</td>
</tr>
<tr>
<td>Second</td>
<td>September 15</td>
<td>Financial operating statements for the period from January 1 through June 30</td>
</tr>
<tr>
<td>Third</td>
<td>December 15</td>
<td>Financial operating statements for the period from January 1 through September 30</td>
</tr>
</tbody>
</table>

*If any due date is not a Business Day, then the submission may be made on the next Business Day.*
4. **Credit Facilities and Bulk Deliveries.** For Credit Facilities and Bulk Deliveries, the Servicer must submit both the detailed quarterly operating statements and the Deal Level Structured Transaction (BD/CF) Quarterly report, including the Structured Facilities Monitoring Narrative (Form 4801), Spreadsheet (Form 4802), and any other relevant documents, 75 days after the end of the first, second, third, and fourth quarters, as set forth below.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Due Date*</th>
<th>Required Information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>Property with a 12/31 Fiscal Year End</strong></td>
</tr>
<tr>
<td>First</td>
<td>June 15</td>
<td>Financial operating statements for the period from January 1 through March 31, and deal level reports</td>
</tr>
<tr>
<td>Second</td>
<td>September 15</td>
<td>Financial operating statements for the period from April 1 through June 30, and deal level reports</td>
</tr>
<tr>
<td>Third</td>
<td>December 15</td>
<td>Financial operating statements for the period from July 1 through September 30, and deal level reports</td>
</tr>
<tr>
<td>Fourth</td>
<td>March 15</td>
<td>Financial operating statements for the period from October 1 through December 31, and deal level reports</td>
</tr>
</tbody>
</table>

*If any due date is not a Business Day, then the submission may be made on the next Business Day.

### Section 503.04. Annual Reporting on Financial Analysis of Operations

The Servicer must submit a Financial Analysis of Operations (Form 4254 or 4254.Seniors) annually to Fannie Mae for each Property for the previous calendar year or, if applicable, for the fiscal year ending in the previous calendar year.

#### A. Annual Financial Analysis Reporting Requirements

The Servicer must submit detailed operating statements for each Property, normalized to account for any seasonal variations in income and expense. The annual operating statements must
reflect the actual physical occupancy rate for the Property as of the end of the reporting period, based on the most recent available rent roll. The Servicer must provide actual expenses and must also normalize certain expense items, including, but not limited to, real estate taxes, property casualty insurance, Capital Expenditures (Replacement Reserves), and property management fees. The Servicer must provide comments if any of the following are observed:

- a variance of greater than 20% from the prior year of any of Effective Gross Income, total operating expenses, Gross Potential Rent, Private Pay, Medicare/Medicaid, Repairs and Maintenance, Utilities, Water and Sewer, Real Estate Taxes and Property Insurance;
- a variance in physical occupancy of greater than 10% from the reporting period immediately preceding the current reporting period;
- a change in the Property’s tax-exempt status (if applicable) during the year;
- a change in the required Principal and Interest payments during the year (e.g., interest-only to amortizing);
- management fees of less than 3%;
- a change in any other pertinent information related to the Property financial analysis; or
- the Mortgage Loan is on the Fannie Mae Watchlist.

B. Submitting the Annual Financial Analysis of Operations

The following steps must be taken to complete and submit the annual Financial Analysis of Operations report (Form 4254 or Form 4254.Seniors) to Fannie Mae:

1. For a Mortgage Loan purchased by Fannie Mae on or before June 30 in any given year, the Annual Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) covering that first year must be submitted to Fannie Mae by June 1 of the following year, and the Servicer must annualize the available operating data to represent a full 12 months of operations. If the Mortgage Loan was purchased by Fannie Mae on or after July 1 in any given year, the Servicer is not required to submit an annual Financial Analysis of Operations (Form 4254 or Form 4254.Seniors) until June 1 of the second year after purchase in order to collect 12 months of actual operating data.

For all subsequent years, the Servicer must submit an annual operating statement for each Property to Fannie Mae on or before June 1 or, if applicable, within 150 days following the fiscal year-end for any Property owned by a Borrower with a non-calendar fiscal year. For any Borrower with a non-calendar fiscal year, the Servicer must submit a data change request through the MAMP requesting a change to the Borrower’s fiscal year end.
2. The Servicer must analyze the operating statements submitted by the Borrower in accordance with the Multifamily Analysis of Operations – Form 4254 Line Item Definitions (Form 4254.DEF), which is located at www.fanniemae.com or the MAMP. The Servicer must indicate on the Borrower's operating statements the line item under which each of the Borrower's income and expense line items is included.

3. For each Property, the Servicer must access the MAMP and provide the pertinent income, expense, and other required data for the current reporting period. All submitted operating statements will undergo automated quality control testing, and any issues must be resolved timely.

C. Annual Review

Fannie Mae will notify the Servicer which Mortgage Loans are subject to the annual review. Within 15 Business Days after receiving notice, the Servicer must submit through the MAMP for each Mortgage Loan under review:

- the Borrower’s operating statements, with each income and expense line item coded by the Servicer according to the line item definitions in the Multifamily Analysis of Operations Form 4254 and Form 4254.Seniors Line Item Definitions (Form 4254.DEF);
- an escrow activity reconciliation of the Borrower’s operating statement data; and
- any other documentation requested by Fannie Mae.

D. Asset Management Testing

The Multifamily Asset Management team tests compliance with many areas of the Asset Management process to ensure Servicers are properly adhering to Fannie Mae’s requirements. Testing results are communicated through the Lender Assessment process, and recommendations, requirements for corrective action, or best practice enhancements are proposed and monitored through completion.

E. Maintenance of Records

The Servicer must maintain the Borrower’s operating statements and reconciliation for the life of the Mortgage Loan.
Section 504. Compliance with Loan Agreement Requirements
(05/21/18)

Section 504.01. General

The Servicer must ensure that the Borrower and any guarantor are in compliance with the Loan Documents. For all Mortgage Loans, the Servicer must:

- confirm that the Borrower complied with all quarterly and annual reporting requirements, which are primarily set out in Article 8 of the Multifamily Loan Agreement (Form 6001 series); and
- review all information required by the Loan Documents to be furnished by the Borrower.

To assist in compiling the financial records and other items required to be furnished by the Borrower, the Servicer may use the Annual Loan Agreement Certification (Form 6620 series).

Section 504.02. Obtaining Required Financial and other Reporting Items

A. Notice to the Borrower

At the end of each fiscal year, the Servicer must send the Borrower, and all guarantors on a Mortgage Loan, a list of the financial reports required to be submitted and certified by each Borrower and guarantor. The list must be delivered in sufficient time to allow submission to the Servicer of the certified financial reports within 45 days after the end of each fiscal quarter, and 120 days after the end of each fiscal year.

B. Annual Reporting of Guarantor Financial Condition

Fannie Mae will provide the Servicer with an annual list of all Mortgage Loans for which the Servicer must submit the financial records and other required items for the past fiscal year by, or on behalf of, each guarantor of the Mortgage Loan. The guarantor financial information must be submitted through the MAMP, or as otherwise directed by Fannie Mae, by the June 1 deadline required for the annual Financial Analysis of Operations reports (Form 4254) for each Property. If Fannie Mae determines increased credit risk for a Mortgage Loan not on the initial list provided to the Servicer, Fannie Mae may ask for the submission of the associated guarantor financial records at any other time during the year.

C. Failure of Borrower to Provide Required Guarantor Financial Reporting

The Lender must use its best efforts to obtain the required financial reports for any guarantor not included on Fannie Mae’s list of Mortgage Loans for which the Servicer must submit the financial records of each guarantor of the Mortgage Loan.
For all Mortgage Loans included on Fannie Mae’s list, the Servicer must contact Fannie Mae immediately upon the occurrence of any of the following events:

- the Borrower is unable to submit the required guarantor financial reports and other items by the date required in the Loan Documents;
- the Borrower or guarantor is unable to certify that each financial report is true, complete, and accurate in all material respects; or
- the Servicer believes the financial reports and other items are, inaccurate or misleading in any material way.

Upon the occurrence of any of the foregoing events, the Servicer must notify the Borrower, and the Borrower or guarantor shall have an additional 30 days after receipt of such written notice to deliver to the Servicer all required financial reports and other items, properly certified by the Borrower or guarantor. If the Servicer determines that the Borrower or guarantor is diligently attempting to deliver all required financial reports and other items, this 30 day period may be extended by the Servicer for up to an additional 30 days.

If the Borrower or a guarantor fails to (i) submit all required financial reports and other items, properly certified by the Borrower or guarantor, within the above time frame; or (ii) respond to at least 3 written requests for the delivery of the required information, the Servicer must request a waiver through the MAMP for the Borrower, or Multifamily Operating Statements for the guarantor. The Servicer must provide copies of all correspondence between the Servicer and the Borrower or any guarantor related to this matter to Fannie Mae.

D. Lender Review of Required Financial Reporting

The Servicer must promptly review all information submitted by the Borrower or guarantor. If the Servicer determines that no additional follow-up is required, the Servicer must submit the certified material for the Borrower and guarantors requested by Fannie Mae through the MAMP, or as otherwise directed by Fannie Mae. The Servicer must also place that material, and the financial information for any other guarantor received by the Servicer, along with any explanatory schedules, in its Servicing File.

If the Servicer determines that additional follow-up is required to explain any submitted material, or that additional or supporting information is required (e.g., for a Lender using the Form 6620, a required item the Borrower failed to attach to the submission, or an item to which the Borrower failed to certify), the Servicer must contact the Borrower or guarantor promptly to request additional information. Once the additional or resubmitted information is received, the Servicer must submit a copy of all financial reporting, explanatory schedules, and other supporting information furnished by the Borrower and guarantor to the MAMP for the Borrower, or to Multifamily Operating Statements for the guarantor.
E. Maintenance of Annual Financial Reporting Records

The Servicer must retain the original of all financial records, certifications, and related information furnished by the Borrower or guarantor (including each Annual Loan Agreement Certification, if used by the Servicer, and any explanatory schedules) in its Servicing File.
# Part V – Servicing and Asset Management

## Chapter 6 – Watchlist Management

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Chapter 6 – Watchlist Management

Section 601. General (12/8/14)

This Chapter sets forth the minimum standards for identifying and servicing Mortgage Loans that exhibit signs of heightened credit risk. Certain circumstances may require the Servicer to perform additional servicing duties. Although Fannie Mae requires Servicers to service all Mortgage Loans to a high standard, those exhibiting heightened credit risk must be serviced to an enhanced standard commensurate with the increased risk. Fannie Mae may exercise its remedies under this Guide and the Lender Contract if the Servicer fails to comply with the standards described in this Chapter. All of the requirements of this Chapter apply to Primary Risk Mortgage Loans and Secondary Risk Mortgage Loans unless otherwise indicated.

Section 602. Risk Rate and Maintain Servicer Watchlist (12/8/14)

The Servicer must maintain a Servicer Watchlist by risk rating its Fannie Mae Mortgage Loan portfolio in order to identify Mortgage Loans exhibiting heightened credit risk consistent with the instructions and classification provided in this Chapter.

Section 603. Servicer Watchlist Classifications and Requirements (07/23/18)

To promote consistency in identifying Mortgage Loans exhibiting heightened credit risk, Fannie Mae has defined rating classifications for the Servicer to determine which Mortgage Loans must be identified on the Servicer Watchlist described in this Chapter. These classifications are similar to regulatory definitions applicable to U.S. depository institutions with respect to assets exhibiting heightened credit risk.

Section 603.01. Rating Classifications

A. Pass Asset

A Pass Asset exhibits no evidence of an emerging weakness that could affect its future performance. A Pass Asset is performing as agreed and demonstrates none of the weaknesses described in the following definitions for a Pass/Watch Asset, Special Mention Asset, Substandard Asset, or Doubtful Asset.

B. Pass/Watch Asset

A Pass/Watch Asset demonstrates a current weakness, condition, or characteristic that is not yet severe enough to warrant a Substandard Asset or Doubtful Asset rating.
Characteristics of a Pass/Watch Asset rating include, but are not limited to, physical condition, cash flow and/or other measures of performance that are weaker than expected or as underwritten, yet operating performance has not diminished such that the Asset should be adversely classified.

C. Special Mention Asset

A Special Mention Asset is a Mortgage Loan that would otherwise be rated Pass, but has potential weaknesses requiring close attention. Ordinarily assets rated Special Mention have deficiencies in their administration which corrective management action might remedy. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the Mortgage Loan, or adversely affect its future performance. A Special Mention Asset rating is not a compromise between a Pass Asset and Substandard Asset rating, and should not be used to avoid exercising such judgment. Instead, it should be used to guide management on corrective measures that might be taken to strengthen an asset to avoid any potential deterioration in the asset’s quality.

Characteristics of a Special Mention Asset rating include, but are not limited to, matters not immediately impacting Property cash flow or asset value that, if left uncorrected, may warrant an adverse risk classification in the future, including:

- material noncompliance with any Loan Document (including, but not limited to, any Completion/Repair Agreement, Replacement Reserve Agreement, or Collateral Agreement), or other similar Borrower obligation;
- ownership or management problems;
- pending litigation, citations, or code/regulatory violations; or
- any other material structural weakness, or any other significant deviation from prudent lending or ownership practices.

D. Substandard Asset

A Substandard Asset is inadequately protected by the current net worth and paying capacity of the Borrower or the related Property, including any additional collateral pledged. A Mortgage Loan classified as a Substandard Asset must have a well-defined weakness or weaknesses that may jeopardize the timely repayment of the Mortgage Loan, and there must be a distinct possibility that the Borrower will default under the terms of the Mortgage Loan if the deficiencies are not corrected. While Substandard Assets generally will have a distinct potential for loss, an individual Mortgage Loan may still be rated as a Substandard Asset even though that Mortgage Loan does not have distinct loss potential should it default.

A Substandard Asset has a higher probability of payment default than a Pass Asset or a Pass/Watch Asset, or it has other well-defined weaknesses and requires more intensive supervision by the Servicer.
Characteristics of a Substandard Asset rating include, but are not limited to:

- inadequate debt service coverage; or
- repayment that depends on the sale of the Property (or other collateral, if any) securing the Mortgage Loan, the assumption of the Mortgage Loan, or other credit risk mitigants.

F. Doubtful Asset

A Doubtful Asset has all the weaknesses inherent in a Substandard Asset with the added characteristic that the weaknesses make timely collection or liquidation in full highly questionable and improbable on the basis of currently existing facts, conditions, and values.

A Doubtful Asset is either already in default or has a high probability of default, and may have a high probability of total or substantial loss. However, the extent of the loss may not be clear due to specific pending events that may strengthen the asset or mitigate the loss. Pending events can include mergers, acquisitions, liquidations, capital injections, obtaining and perfecting Liens on additional collateral, the valuation of collateral, and refinancing. Generally, pending events should be resolved within a relatively short period and the rating will be adjusted based on the new information.

Section 603.02. Identification on Servicer Watchlist

A Mortgage Loan having characteristics of anything other than a Pass Asset or Pass/Watch Asset must be identified on the Servicer Watchlist by that Mortgage Loan’s risk rating classification.

Section 603.03. Increased Communication with Fannie Mae

A Servicer must increase its communication with the appropriate Multifamily Loss Mitigation, Multifamily Maturity Management, and Top Loss Management Representative concerning any Mortgage Loan that meets the criteria of a:

- Special Mention Asset;
- Substandard Asset; or
- Doubtful Asset.

The Servicer must contact Multifamily Loss Mitigation, or the appropriate Multifamily Maturity Management or Top Loss Management Representative by telephone or e-mail within 10 Business Days after the Servicer determines that a Mortgage Loan has moved to either a Substandard Asset or a Doubtful Asset since the last reporting period.
These communications must provide sufficient detail to ensure that Fannie Mae is fully apprised of the nature and severity of the factors leading to the rating characterization assigned by the Servicer.

A Servicer must act prudently and in a timely manner, as required under its Lender Contract, this Guide, and the Loan Documents, to mitigate the risk of loss or default with respect to Mortgage Loans serviced on behalf of Fannie Mae. Such actions may include, but are not limited to:

- increased monitoring of the management and operating results of the Property (and other collateral, if any);
- increased monitoring of the physical condition of the Property (i.e., increased inspections beyond the stated requirements);
- rescission of waivers or implementation of Loan Document requirements that serve to mitigate risk (e.g., the reinstatement of the Multifamily Loan Agreement requirement to fund the Replacement Reserve that had been previously waived); and
- increased communication with the Borrower and any party that has managerial rights pertaining to the Borrower or the Property (and other collateral pledged with respect to the Mortgage Loan, if any).

Section 604. Servicer Watchlist Submission (10/2/17)

The Servicer must submit to Fannie Mae the Servicer’s Watchlist for all Primary Risk Mortgage Loans and Secondary Risk Mortgage Loans rated by the Servicer as a Special Mention Asset, Substandard Asset, or Doubtful Asset. For each Mortgage Loan on the Servicer’s Watchlist, the Servicer should:

- explain why the Asset is being reported, including the rationale for assigning the specific rating for that asset; and
- provide an update on the current status of the issues.

Additionally, the Servicer must answer “Yes” or “No” to the following 2 questions:

1. Is it likely that the Borrower will not be able to make Debt Service payments in a timely manner?
2. Is it likely the Borrower will not meet the contractual obligations to pay off the principal balance of this Mortgage Loan in a timely manner?

The Servicer’s Watchlist and answers to the above 2 questions must be submitted within 45 days after the end of each calendar quarter, and no later than the due date shown in the MAMP. Submissions are made using the CSV upload template located in the Resource Library of the MAMP. Fannie Mae will review the submission and determine if further actions are warranted.
Section 605. Fannie Mae Watchlist (12/8/14)

Fannie Mae maintains a Fannie Mae Watchlist that identifies Mortgage Loans that exhibit increased credit risk based on Fannie Mae’s proprietary Mortgage Loan rating system. Servicers are able to view all rated Mortgage Loans in the “My Portfolio” section of the MAMP.

Fannie Mae will initiate communications with the Servicer to discuss the severity of risk of each Mortgage Loan included in the Fannie Mae Watchlist.

Section 606. Action Plans (12/8/14)

Section 606.01 Action Plans for Primary Risk Mortgage Loans

The Servicer must submit an Action Plan for every Primary Risk Mortgage Loan identified as a Substandard Asset on the Fannie Mae Watchlist. However, no Action Plan is required for Small Loans that are Substandard Assets unless specifically requested by Fannie Mae. Periodically, Fannie Mae publishes a schedule outlining the dates by which the Servicer must (i) determine whether any Mortgage Loan qualifies as a Substandard Asset, and (ii) submit the Action Plan.

Action Plans must contain details sufficient to allow Fannie Mae to understand (i) the areas of concern, (ii) the actions the Servicer is taking to resolve the issues, and (iii) the results of the actions. A Watchlist Management User Guide and prescribed formats for Action Plans are published on the Lender Dashboard of the Watchlist Management application and in the Resource Library of the MAMP. The Servicer must update Action Plans as needed, but not less frequently than twice per year to reflect:

- material changes;
- causes of issues and additional actions being taken;
- an explanation of how additional actions will reduce the risk factors of the Mortgage Loan; and
- the results of any actions taken previously.

A Servicer may suspend actions required under an Action Plan for a Substandard Asset if it is re-characterized as a Special Mention Asset, a Pass/Watch Asset, or a Pass Asset prior to the date set forth in the Fannie Mae publication by which the Servicer must determine whether any Mortgage Loan qualifies as a Substandard Asset.

Fannie Mae will evaluate the quality of the Servicer’s Action Plans, including timeliness of the submission, completeness, appropriateness, and management activity.
Section 606.02. Information Requests and Action Plans for Secondary Risk Mortgage Loans

Fannie Mae may request additional information from the Servicer with respect to Secondary Risk Mortgage Loans on the Servicer Watchlist. Such information may include an Action Plan which must be in the format prescribed in the Lender Dashboard – Watchlist Management application. All requested information and Action Plans must be provided by the Servicer within 5 Business Days after request by Fannie Mae.

Section 606.03. Defaulted Mortgage Loans on Fannie Mae or Servicer Watchlist

The Servicer’s obligations with respect to defaulted Mortgage Loans are addressed in Part V, Chapter 7 of this Guide. The Servicer must continue to execute activities set forth in an Action Plan (and as otherwise communicated to or with Fannie Mae) with respect to a defaulted Mortgage Loan until and unless servicing of the Mortgage Loan is transferred to Special Servicing in accordance with Part V, Chapter 7. Once transferred to Special Servicing, the Servicer may suspend any actions required under an Action Plan.

Section 607. Property Condition Concerns (Not Limited to Watchlist Loans) (05/14/18)

Regardless of whether or not the Mortgage Loan is listed on the Fannie Mae Watchlist or the Servicer Watchlist, the Servicer must take the following actions if (i) a Mortgage Loan has a Property inspection rating of 4 or 5, as shown on the Fannie Mae Assessment Addendum (“Fannie Mae Assmt Addendum”) tab of the MBA Master Inspection Form, or (ii) the property is found to have any life safety concerns or significant deferred maintenance:

- reinstate any suspended requirements for repair or replacement reserves escrows;
- inspect the affected Property or Properties as frequently as necessary to identify, monitor, and work to correct the matter of concern, but in no event less frequently than required by Part V, Chapter 4;
- obtain Fannie Mae’s approval prior to ordering a Property Condition Assessment (“PCA”); and
- identify the Mortgage Loan as Substandard (or other appropriate classification) as directed by this Chapter.

Section 608. Servicer Fees for Workout, Modification, or Reinstatement (12/8/14)

The Servicer may not charge the Borrower any fee for its own account, or seek reimbursement from the Borrower for any costs or expenses in connection with any workout, modification, or
reinstatement of a Mortgage Loan on the Servicer Watchlist or the Fannie Mae Watchlist without the prior approval of Fannie Mae.

Section 609. Fannie Mae Contractors (12/8/14)

Periodically, Fannie Mae may contract with others to provide asset management and other services on its behalf with respect to Mortgage Loans. All required interactions between a Servicer and such Fannie Mae contractors must be conducted as though the Servicer is interacting directly with Fannie Mae and, in all instances, consistent with the Servicer's obligations under this Guide.
PART V – SERVICING AND ASSET MANAGEMENT

CHAPTER 7 – NON-PERFORMING MORTGAGE LOANS

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Chapter 7 – Non-Performing Mortgage Loans

Section 701. Generally

This Chapter sets forth the policies, procedures and standards for servicing Non-Performing Mortgage Loans through the default resolution process. The provisions of this Chapter apply, unless otherwise noted, to both Secondary Risk Mortgage Loans and Primary Risk Mortgage Loans.

Fannie Mae requires that, at a minimum, each Servicer offer the same standard of care to its Fannie Mae portfolio as it would its own portfolio. Subject to this Chapter, the Servicer must aggressively pursue collection of all amounts due from Borrowers under the Loan Documents to minimize losses. To that end, this Chapter sets forth the roles, duties and responsibilities of the various groups within Fannie Mae, the Servicer, and, if applicable, the Special Servicer charged with resolving delinquencies and defaults in the most efficient and expeditious manner.

The party performing the loss mitigation actions, as outlined in this Chapter 7, is referred to as the "Special Servicer". The Special Servicer will either be the Lender, Fannie Mae, or a contract Special Servicer for the Lender or Fannie Mae, as permitted by this Guide. In this Chapter, any reference to the respective rights or duties of the Lender or Fannie Mae, as the Special Servicer, shall also apply to any approved contract Special Servicer for the Lender or Fannie Mae; however, it is the Lender's responsibility to ensure that any actions taken in its behalf by a contract Special Servicer fully comply with the requirements of this Guide.

The requirements set forth in this Chapter represent only the minimum requirements that Fannie Mae expects from the Servicer. Unusual circumstances may require the Servicer to perform additional servicing duties as directed by Fannie Mae. Fannie Mae requires a high standard of delinquent Mortgage Loan servicing. Failure to service in accordance with that standard may result in Fannie Mae's exercise of its remedies as set forth in this Guide and the Lender’s Contract.

In the event of a conflict between this Chapter, the Lender’s Contract, the Transaction Documents, and the Loan Documents, the following is the order of priority regarding governing provisions: (1) Loan Documents, (2) Transaction Documents, (3) Lender’s Contract, and (4) this Chapter. To the extent not in contradiction with the Loan Documents, the Lender’s Contract or the Transaction Documents, the requirements of this Chapter must be satisfied.
Section 702. Secondary Risk Mortgage Loans and Primary Risk Mortgage Loans

Section 702.01 Generally

For certain Lenders, the Lender’s Contract with Fannie Mae will specify which party has all of the risk of loss on the Mortgage Loan, or if the Lender and Fannie Mae share the loss. In some Lender Contracts, the Mortgage Loans may be Secondary Risk until the Lender's recourse obligation is deemed exhausted after which the Mortgage Loans will become Primary Risk.

Section 702.02 Secondary Risk Mortgage Loans

A. Definition

A Mortgage Loan is considered a Secondary Risk Mortgage Loan when all losses incurred on such Mortgage Loan are contractually borne by the Lender until the Lender’s specified recourse obligation is deemed exhausted. This obligation to bear all losses is sometimes referred to as a “Top Loss” obligation. Because Secondary Risk Mortgage Loans will convert to Primary Risk Mortgage Loans upon the deemed exhaustion of the Lender’s obligation, Fannie Mae and the Servicer must work together to accurately track amounts for any losses that may have occurred.

B. Lender is Special Servicer

For all Secondary Risk Mortgage Loans, the Lender, or its approved contract servicer, will be the Special Servicer. The Special Servicer will be required to submit to Fannie Mae a Servicer Workout Action Template (“SWAT”) (Form 4810) for all Secondary Risk Mortgage Loans as more particularly provided in Section 708.02 of this Chapter.

C. Deemed Exhaustion of Recourse Obligation

When the cumulative approved realized losses plus Potential Losses under a Secondary Risk Lender Contract equal or exceed 90% of the Lender's recourse obligation under that Contract, the Lender’s recourse obligation under the Contract will be deemed to be exhausted and the remaining Mortgage Loans serviced under that Contract will be deemed to be Primary Risk Mortgage Loans. Fannie Mae will provide notice in writing to the Servicer at the time of such re-designation. Re-designation of a Mortgage Loan from Secondary Risk to Primary Risk does not relieve the Lender of its remaining recourse obligation.

Fannie Mae's estimate of Potential Losses will be calculated as follows:

- The value of each Property (as provided below) securing all then-delinquent Mortgage Loans, less
- the Unpaid Principal Balance of all then-delinquent Mortgage Loans, plus
- estimated expenses to pursue a foreclosure Course of Action for all then-delinquent Mortgage Loans.

The value of the Property shall be calculated as follows:

- 90% of the Property value of each Property securing each such delinquent Mortgage Loan if the value is established by an appraisal or broker’s opinion of value dated six (6) months or less prior to incurring the Potential Loss, or
- 60% of the most recent Property value of each Property securing each such delinquent Mortgage Loan if the value is established by an appraisal or broker’s opinion of value dated more than six (6) months prior to incurring the Potential Loss.

**Section 702.03 Primary Risk Mortgage Loans Defined**

**A. Definition**

A Mortgage Loan is considered a Primary Risk Mortgage Loan when Fannie Mae bears all losses on the Mortgage Loan or when the Lender and Fannie Mae share the losses on the Mortgage Loan. All Mortgage Loans delivered under the DUS and Aggregation product lines and certain other Mortgage Loans where Fannie Mae either bears all the risk of loss or shares in a portion of the risk of loss are Primary Risk Mortgage Loans.

**B. Fannie Mae is Special Servicer**

For all Primary Risk Mortgage Loans, Fannie Mae, or its contract servicer, will be the Special Servicer.

**Section 703. Mortgage Loan Defaults**

**Section 703.01 Anticipatory Defaults**

When a Borrower indicates to the Servicer that it is no longer willing or able to continue to make its debt service or other payment obligations as required by the Loan Documents or to perform acts that are required by the Loan Documents, the Servicer must notify its Fannie Mae Representative immediately. The Servicer and Fannie Mae will determine whether such future non-performance is inevitable and whether to treat such a potential breach as immediate and, if repudatory, to seek immediate relief.
Section 703.02 Performance Defaults

A. Failure of Borrower to Perform.

The Loan Documents will provide acts of the Borrower that are required to be performed, the failure of which may be designated as an event of default. There may be grace periods for curing such a default. The Servicer must provide written notice of the default to Fannie Mae and to the Borrower as required in the Loan Documents. The Servicer must diligently pursue the Borrower’s cure thereof within the time permitted. If the Borrower fails to cure the default within the time provided in the Loan Documents to effect such a cure, a Performance Default has occurred. Depending on the severity of the Performance Default, Fannie Mae may permit the Servicer to monitor the default as provided in Paragraph C of this Section below.

B. Service of Process

Often, the Lender, Servicer, or Fannie Mae become aware of a Performance Default through receipt of a complaint, petition, or similar legal document in connection with a lawsuit. While the Servicer has the duty to provide notices of default to the Borrower, neither the Lender nor the Servicer is authorized to accept service of process on behalf of Fannie Mae. Fannie Mae’s Legal Department in Washington, DC must accept service of process for Fannie Mae related to any Mortgage Loan or Property.

C. Lender Tenders for Minor or Immaterial Defaults

1. Primary Risk Mortgage Loans

In some instances, for minor or relatively immaterial defaults (like materialmen and mechanics' liens) on Primary Risk Mortgage Loans, Fannie Mae will elect to tender the Performance Default to the Servicer to monitor, engage legal counsel as necessary, and otherwise protect Fannie Mae's security interest in the Property. These "Lender Tenders" will be monitored and special serviced by the Servicer using its customary standard of care for similar Performance Defaults in its own portfolio.

2. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, all of the monitoring and special servicing activities for minor or relatively immaterial defaults will be performed by the Servicer.

3. Lender Tenders Not Subject to Requirements of this Chapter

Lender Tenders are not subject to the terms of this Chapter 7.
Section 703.03 Monetary or Payment Defaults

Payments under the Note evidencing the Mortgage Loan are due on the first day of the month or such other date as may be specified in the Note. Typically, there is no grace period for making payments and payments made after the scheduled due date are past due even if late charges do not attach until some days later. If the Borrower fails to pay monies when due, whether the obligation arises under the Note or other Loan Document, a Monetary or Payment Default has occurred.

Section 703.04 Date of Default

A. Definition of Date of Default

The Date of Default is the date of the initial Payment Default or Performance Default.

B. Definition of Non-Performing Mortgage Loan

After the Date of Default and until the default is cured, the Mortgage Loan is considered a "Non-Performing Mortgage Loan."

C. Partial Payments by Borrower Do Not Change Date of Default

For purposes of computing the time period for initiating the Dual Track Approach and electing a Course of Action as described in this Chapter, partial payments made by the Borrower for monies due under the Note or other Loan Document does not advance forward the Date of Default. The last paid installment ("LPI") is the accounting term for indicating the due date of the last payment received. Partial payments may be received over time that advance the LPI date, but the Date of Default of the initial Payment Default or Performance Default will not change.

As provided in Sections 704.02, before the Servicer is permitted to apply any partial payment to advance the LPI date, the Servicer must first obtain direction from Fannie Mae Special Asset Management. Fannie Mae may, at its option, require the Servicer to hold all such partial payments in suspense and not advance the LPI date until the Borrower has paid all amounts necessary to cure all Payment Defaults.

Section 703.05 Late Charges and Default Interest

A. Timing for Imposition of Late Charges and Default Interest

The imposition of late charges and default interest must be made in accordance with the amounts and at such time as specified in the Note or other Loan Document.
B. Late Charges and Default Interest

1. Late Charges

Unless otherwise provided in the Lender Contract, all late charges are wholly retained by the Servicer. Any decision to waive the collection of late charges payable to the Servicer rests with the Servicer.

2. Default Interest

Unless the Lender’s Contract specifies otherwise, so long as the Servicer is making Delinquency Advances, the Servicer is entitled to retain that portion of the Mortgage Loan interest rate charged to the Borrower that is attributable to the default and intended to be added to the stated Mortgage Loan interest rate. If the Servicer is not making Delinquency Advances, no amount of the default interest component may be retained by the Servicer. Without regard to whether the Servicer is making Delinquency Advances, Fannie Mae is always entitled to the interest that accrues at the stated Mortgage Loan interest rate.

C. No Deduction for Late Charges or Default Interest

Late charges and default interest may not be deducted by the Servicer from the Borrower's principal and interest payments, tax and insurance deposits, or Collateral Agreement deposits.

D. Enforceability of Late Charges and Default Interest

The enforceability of late charges and default interest may depend on the law in the Property jurisdiction. The Servicer must determine, based on the facts and circumstances of any transaction and their legal counsel's advice, whether any such charges are enforceable in the Property jurisdiction prior to making demand.

Section 704. Notice of Default; Reservation of Rights

Section 704.01. Notice of Default

A. Notice to Fannie Mae of Payment Default

Using the Multifamily Delinquency System, the Servicer must advise Fannie Mae of a Payment Default or a Performance Default on or before the 17th day of the month (or on the next Business Day if the 17th is not a Business Day) in which the Payment Default occurs or is discovered.
B. Notice to Fannie Mae of Performance Default

By written notice to its Fannie Mae Representative (LM_Watch@fanniemae.com for Primary Risk Mortgage Loans, and MP_SAM@fanniemae.com for Secondary Risk Mortgage Loans), the Servicer must advise Fannie Mae of certain Performance Defaults as provided in this Section. Notice of a Performance Default must be given to Fannie Mae:

- within five (5) days after the Servicer becomes aware of the Performance Default;
- or
- if the Loan Documents permit a cure period after the Borrower receives written notice of its default or failure to perform any act under the Loan Documents, then within five (5) days after the Borrower’s cure period has expired and a Performance Default has occurred. The Servicer shall provide any such notice of the Performance Default to Borrower in accordance with Part V, Chapter 7, Section 703.02 of this Guide.

If the Borrower’s default or failure to perform any act under the Loan Documents has been excused by a waiver given by the Servicer (if permitted pursuant to this Guide) or by Fannie Mae, such default or non-performance is not considered a Performance Default.

After having given Fannie Mae notice of a Performance Default, the Servicer should provide updates at least monthly to its Fannie Mae Representative, to advise of status of the default and the steps being taken by the borrower to cure the Performance Default.

C. Types of Performance Defaults

The following Performance Defaults must be reported by the Servicer, as provided in this Section; however, to the extent the Servicer believes that a Performance Default not listed below is material to the Borrower’s ability to perform under the Mortgage Loan, or the value of the Mortgage Loan or the Property, the Servicer should report that Performance Default as well:

1. Unauthorized Transfers

To the extent not approved in accordance with Part V, Chapter 4, Section 418 of this Guide, any transfers identified as a Transfer/Assumption in Part V, Chapter 4, Section 418 of this Guide, unless such type of transfer is permitted under the applicable Loan Agreement or Security Instrument for the Mortgage Loan.

2. Completion/Repair Defaults

The Borrower’s failure to complete required repairs in the aggregate in excess of the lesser of $50,000 or 10% of current UPB under a Loan Agreement, a Completion/Repair and Security Agreement, a Replacement Reserve and Security Agreement, or any other Loan Document or agreement binding upon the Borrower.
3. **Mechanic’s, Materialman’s or Judgment Liens**

The Borrower’s failure to release or bond off a mechanics, materialman’s or judgment lien that has been filed against the Property.

4. **Failure to Maintain Insurance**

The Borrower’s failure to maintain all insurance coverages as required by Part IIIA, Chapter 3, Sections 321 and 322, and Part IIIB, Chapter 9, Sections 911 and 912 of this Guide, and the applicable Loan Agreement or Security Instrument for the Mortgage Loan.

5. **Failure to Maintain the Property**

The Borrower’s failure to maintain the Property as required by the applicable Loan Agreement or Security Instrument for the Mortgage Loan, as evidenced by outstanding code violations or municipal code enforcement actions pending against the Property for immediately hazardous conditions (such as inadequate fire exits, rodents, lead-based paint, lack of heat, hot water, electricity, or gas, etc.), uninhabitable units on the Property, the failure to promptly make repairs to the Property following a casualty loss, demolition of Improvements on the Property, or waste or abandonment of the Property or its Improvements. For purposes of reporting under this Section 704.01, “uninhabitable units” do not include a unit where a tenant has vacated and the unit is being made ready, so long as the Borrower is promptly addressing the condition of the vacated unit and in the process of making it ready for leasing.

6. **Change in Use**

The Borrower’s alteration of the Property or change in use, unit mix or other characteristics of the Property, or converting any individual dwelling unit to commercial use, or initiating or acquiescing to a change in the zoning classification of the Property, or establishing any condominium or cooperative regime with respect to the Property, or subdividing the Property, without Fannie Mae approval as required by the Loan Documents.

7. **Environmental Conditions**

The Borrower’s failure to comply with its Operations and Maintenance (“O&M”) Agreement for the Property, or the existence of any environmentally hazardous materials that would constitute a Prohibited Activity or Condition under the Loan Agreement, Security Instrument, or other Loan Documents.

8. **Non-compliance with Laws**

Any violation of laws, ordinances or regulations by the Borrower and/or the Property, as required by Part V, Chapter 3, Section 306 of this Guide.
D. **Contact with Borrower**

The Servicer must contact the Borrower as provided in this Chapter to determine why the payment has not been made and whether the payment will be made before the end of the month. The Servicer must continue to update the Multifamily Delinquency System on its discussions with the Borrower until the Mortgage Loan has been transferred to the Special Servicer (either Fannie Mae for Primary Risk Mortgage Loans, or the Servicer's special servicing area for Secondary Risk Mortgage Loans).

E. **Pre-Negotiation Letter**

1. **Execution**

Prior to entering into any discussions with a Borrower regarding an anticipatory default (as described in Section 703.01 above) or after the Mortgage Loan has been transferred to the Special Servicer and prior to any further discussions with the Borrower regarding the Non-Performing Mortgage Loan and possible resolution of the default, the Borrower, Fannie Mae (if a Primary Risk Mortgage Loan), the Servicer (if a Secondary Risk Mortgage Loan) or the Lender (if the Lender has loss sharing and is not also the Servicer) must execute and send to the Borrower a written Pre-Negotiation Form Letter (NOI and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter (Form 4812).

2. **Purpose of Pre-Negotiation Letter**

The purpose of the Pre-Negotiation Letter is for all parties to acknowledge in writing that any discussions relating to resolution of the default are not binding on any party until the discussions are documented in a written agreement executed by all parties. Use of the Pre-Negotiation Letter minimizes the risk of a liability claim against Fannie Mae or the Servicer that the Borrower acted in reliance on a verbal representation by Fannie Mae or the Servicer.

**Section 704.02 Partial Payments; Late Payments**

A. **Partial Payments**

If the Borrower makes a partial payment, within five (5) business days after receipt of the partial payment the Servicer must send a letter to the Borrower, under the Servicer’s letterhead, the Multifamily Partial Payment Letter – Fees (Optional) Assessed (Form 4806).
B. Late Partial Payment

If the Borrower makes a late and partial payment, within five (5) business days after receipt of the late and partial payment the Servicer must send to the Borrower, under the Servicer’s letterhead, the Multifamily Partial Payment Letter – Fees (Optional) Assessed (Form 4806).

C. Full Payment After Expiration of Period Before Assessing Late Charges

If the Borrower makes a full payment after the date late charges are assessed, upon receipt of such payment the Servicer must send within five (5) business days the Borrower, under its letterhead, the Multifamily Late Payment Letter – Fees (Optional) Assessed (Form 4805).

If the amount of the payment received from the Borrower is not sufficient to cure all Monetary Defaults, the Servicer shall obtain direction from Fannie Mae Special Asset Management prior to applying the amount to past-due payments and advancing the LPI date. Fannie Mae may, at its option, require the Servicer to hold any such payments received in suspense until the Borrower has paid all amounts necessary to cure all Monetary Defaults.

D. Application of Partial Payments

If the amount of the payment received from the Borrower is not sufficient to cure all Monetary Defaults, the Servicer shall obtain direction from Fannie Mae Special Asset Management prior to applying the amount to past-due payments and advancing the LPI date. Fannie Mae may, at its option, require the Servicer to hold any such payments received in suspense until the Borrower has paid all amounts necessary to cure all Monetary Defaults.

E. Failure to Make Any Payment

If the Borrower fails to make any payment at all, within five (5) business days following the date late charges are incurred the Servicer must send to the Borrower, under the Servicer’s letterhead, the Multifamily No Payment Received Letter – Fees (Optional) Assessed (Form 4807).

F. Copies of Letters Sent to Borrower; Correspondence with Borrower

The Servicer must send to its Fannie Mae Representative a copy of any letter sent to the Borrower pursuant to this Chapter at the same time as it sends such letter to the Borrower. After outside counsel is engaged, any correspondence with the Borrower related to the Payment Default or Performance Default, or the Course of Action, must be made by or through the outside counsel.
Section 705. Capital Repairs and Protection of Property and Property Income

Section 705.01. Funding Capital Repairs During Default Resolution

A. Generally

It is not unusual for a Property securing a Non-Performing Mortgage Loan to be in need of repairs during the default resolution process. Generally, a Payment Default or a Performance Default will result in a default under the Collateral Agreements for Replacement Reserves, Operating Deficit, Completion/Repairs, or other Collateral Agreements. When the Borrower is in default under a Collateral Agreement, the Special Servicer has discretion in applying the reserves or Letter of Credit proceeds either to repairs or replacements or to the payment of amounts due and owing to Fannie Mae under the Loan Documents.

1. Primary Risk Mortgage Loans

As part of its Asset Review for Primary Risk Mortgage Loans, as provided in this Chapter, the Servicer must advise Fannie Mae Special Asset Management of the type of repairs or replacements that are necessary and recommend whether the repairs should be funded from the Collateral Agreement funds. It is Fannie Mae's decision whether or not to accept the recommendation and use the funds for repairs or replacements for Primary Risk Mortgage Loans.

2. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Lender must provide a SWAT describing the actions it intends to take to ensure the repair of the Property and to prevent further Property deterioration. The decision whether or not to use Collateral Agreement funds for repairs or replacements is the Special Servicer's. When making the decision whether to use the Collateral Agreement funds for repairs or replacements, the level of cooperation from the Borrower and remitting the monthly net operating income must be a factor to consider.

B. Health and Safety Repairs

If in inspecting the Property securing the Non-Performing Mortgage Loan, it is apparent that the Borrower is not making repairs related to the health and safety of the tenants or is allowing the physical condition of the Property to deteriorate, then

- for Primary Risk Mortgage Loans, the Servicer must immediately notify Fannie Mae Special Asset Management and, if the Mortgage Loan has been transferred to Fannie Mae Special Asset Management for special servicing, Fannie Mae may elect
to engage outside counsel to pursue the court appointment of a receiver, as well as enforce other rights and remedies; or

- for Secondary Risk Mortgage Loans, the Lender must provide a SWAT describing the actions it intends to take to ensure the repair of the Property and to prevent further Property deterioration.

**THE SERVICER MUST NOT ATTEMPT TO MAKE THE REPAIRS, HIRE CONTRACTORS TO MAKE THE REPAIRS, OR OTHERWISE TAKE ANY ACTION THAT COULD RESULT IN A MORTGAGEE-IN-POSSESSION STATUS.**

### Section 705.02 Protection of Property Income

For all Non-Performing Mortgage Loans, if the Borrower is not accounting for and paying to the Servicer the monthly net operating income from the Property after the Date of Default, then:

- for all Primary Risk Mortgage Loans the Servicer must notify Fannie Mae Special Asset Management as part of the Asset Review or otherwise; or

- for all Secondary Risk Mortgage Loans, the Special Servicer must provide in the SWAT the actions it intends to take to obtain control of the net operating income.

### Section 705.03 Property Management Changes

**A. Primary Risk Mortgage Loans**

For Primary Risk Mortgage Loans, any proposed changes in the property management for Property securing a Non-Performing Mortgage Loan must be approved in writing by Fannie Mae Special Asset Management.

**B. Secondary Risk Mortgage Loans**

For Secondary Risk Mortgage Loans, the recommendation to change the property management for Property securing a Non-Performing Mortgage Loan must be included in the SWAT.

**C. Approval Decision Criteria and Timing**

The decision to approve the replacement property management must focus on, among other customary underwriting criteria, identifying conflicts of interest between the proposed Property Manager and Fannie Mae, as well as evaluating the Property Manager's ability to maintain the Property's physical condition and improve operating income.

Fannie Mae will communicate its approval or rejection of the proposed replacement of the property management within thirty (30) days after receipt from the Servicer of all information necessary to render its decision. Fannie Mae's approval may be conditioned upon receiving
additional documentation or the satisfaction of additional requirements. If Fannie Mae has not approved or conditionally approved the proposed replacement property management within thirty (30) days after the Servicer's request, the proposed change in property management will be deemed to be denied by Fannie Mae.

D. Documenting the Property Management Change

Unless the change in property management is through a court-appointed receiver, the Servicer must send an original Assignment of Management Agreement (Form 4508) for the proposed new property management company executed by the Borrower and information regarding the new property management company to Fannie Mae Special Asset Management to effect a change in property management.

Section 706. Reinstatement; Calculation of Payoff Amount

Section 706.01. Reinstatement

A. Primary Risk Mortgage Loans

For Primary Risk Mortgage Loans, if the Borrower offers to reinstate a Non-Performing Mortgage Loan at any time after the Mortgage Loan has been transferred to Fannie Mae Special Asset Management, the Servicer must notify Fannie Mae Special Asset Management in writing. Fannie Mae will make the determination of whether to allow reinstatement of the Non-Performing Mortgage Loan.

B. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, if the Borrower offers to reinstate a Non-Performing Mortgage Loan at any time after a SWAT has been provided to Fannie Mae, the Servicer (if not the Lender with the risk of loss) will notify the Lender in writing and the Lender will make the determination of whether to allow reinstatement, subject to applicable law, and provide an updated SWAT to Fannie Mae.

Section 706.02 Calculation of Payoff Amount

For either Primary Risk Mortgage Loans or Secondary Risk Mortgage Loans, if in the course of performing loss mitigation actions the Special Servicer requires a computation of the payoff amount for the Mortgage Loan (e.g., for a demand letter to Borrower after acceleration, preparation of litigation pleadings for foreclosure judgment or deficiency suit, determination of foreclosure bid, etc.), the Servicer shall calculate the full payoff amount and submit it for Fannie Mae’s confirmation in accordance with Part V, Chapter 2, Section 214.03 of this Guide. In those instances, if there is not an actual payoff of the Nonperforming Mortgage Loan expected, the anticipated foreclosure date or the “as of” date for the payoff shall be used as the “payoff date” in the calculation. In addition, the Servicer’s request for verification of the payoff amount must be
submitted to Fannie Mae for confirmation at least two (2) business days before such payoff amount is needed by the Special Servicer or outside counsel for its demand letter, litigation pleadings, or other use.

**Section 707. Non-Performing Primary Risk Mortgage Loans – Transfers to Fannie Mae Special Asset Management**

**Section 707.01 Transfer to Special Servicing**

At any time during the first 60 days after the Date of Default, a Non-Performing Primary Risk Mortgage Loan may be transferred to Fannie Mae Special Asset Management, to be the Special Servicer, if the Servicer or Fannie Mae determines that the Borrower is either not cooperating with attempts to resolve the default or it becomes apparent the Borrower will not be able to cure the default. Fannie Mae reserves the right to require any Non-Performing Primary Risk Mortgage Loan be transferred to Fannie Mae Special Asset Management prior to the 60th day after the Date of Default.

Any Non-Performing Primary Risk Mortgage Loan not previously transferred to Fannie Mae, as the Special Servicer, must be transferred to Fannie Mae Special Asset Management no later than the 60th day after the Date of Default.

**Section 707.02 Asset Review**

At the time of the transfer of the Non-Performing Primary Risk Mortgage Loan to Fannie Mae for special servicing, in addition to the Servicing Transfer Memo prepared by the Servicer in accordance with Section 709.02, the assigned asset manager for Fannie Mae Special Asset Management and the appropriate representatives of the Servicer will engage in a discussion to determine what documents or additional due diligence may be required to review the status of the Non-Performing Mortgage Loan or the Property. This Asset Review may include:

- the delivery of copies of the Loan Documents to Fannie Mae;
- the review of the third-party reports obtained by the Lender prior to the origination of the Mortgage Loan;
- the review of the Underwriter's Narrative, the Transaction Approval Memo or other underwriting analyses and materials of the Lender related to the Non-Performing Mortgage Loan;
- the review of various other third-party reports, analyses, studies, proposals or other documents obtained by Fannie Mae or the Servicer subsequent to the origination of the Non-Performing Mortgage Loan;
- obtaining additional third-party reports (including Property appraisal, environmental study or physical needs assessment), studies or proposals; or other documents or due diligence related to the Non-Performing Mortgage Loan; or
assessing the Borrower or Key Principal's financial condition, the operations of the Property, or the current market value and condition of the Property.

Section 708. Non-Performing Secondary Risk Mortgage Loans – Special Servicing

Section 708.01 Servicer Performs Loss Mitigation Actions

For Secondary Risk Mortgage Loans, the Lender shall be the Special Servicer to perform all approved loss mitigation actions to be taken under the Dual Track Approach as described in this Chapter, including selecting and implementing a Course of Action for resolution of the Non-Performing Mortgage Loan.

Section 708.02 Servicer Workout Action Template (“SWAT”)

A. Delivery of SWAT

The Special Servicer must submit to Fannie Mae Special Asset Management a SWAT for review and approval not later than:

- 60 days after the Date of Default for any Payment Default; or
- 15 days after the Maturity Date if the Borrower fails to pay off the Mortgage Loan on or before the Maturity Date.

It is expected that the Special Servicer has collected the necessary data and documentation to prepare its loss mitigation plan for the Non-Performing Mortgage Loan and selected a Course of Action prior to submission of its SWAT.

B. Purpose of SWAT

The purpose for the SWAT is to ascertain Potential Losses associated with the Non-Performing Mortgage Loan and the impact to the Lender's recourse obligation. The SWAT communicates to Fannie Mae the Lender's selected Course of Action, the underlying collateral value (which may be the Special Servicer's estimate or a broker's opinion of value, prior to obtaining an appraisal), operations and physical condition of the Property, financial condition of the Borrower, and loss mitigation actions proposed to be taken by the Special Servicer. Additionally, the SWAT specifies an anticipated resolution date, the anticipated resolution costs, and, if foreclosure is the selected Course of Action, the timing for the Lender's purchase of the Mortgage Loan from Fannie Mae, as provided in this Chapter.

C. Contents of SWAT

The SWAT submission must include:
■ a copy of the Note;
■ a copy of the recorded Security Instrument; and
■ a copy of the recorded Assignment of Security Instrument to Fannie Mae. If the Assignment has not been recorded, the Servicer must, within five (5) Business Days after delivery of the SWAT to Fannie Mae Special Asset Management either:
  □ repurchase the Mortgage Loan from Fannie Mae in accordance with this Chapter; or
  □ record the original Assignment and deliver to Fannie Mae a file-stamped copy of the recorded Assignment.

In addition, if foreclosure is the selected Course of Action, the SWAT must include justification for a bid at the foreclosure sale that is less than an amount calculated as follows:

■ the actual unpaid principal balance of the Mortgage Loan;
■ accrued interest, plus default interest, to the date of foreclosure sale;
■ sums advanced pursuant to the Security Instrument (e.g., taxes, legal costs and fees, etc.);
■ the Yield Maintenance or Prepayment Premium; and
■ accrued late charges;

Less the following amounts:

■ funds held by the Servicer for taxes and insurance deposits, and Collateral Agreement deposits;
■ funds collected or received as rents or net operating income; and
■ proceeds from any insurance loss settlement.

D. Fannie Mae Approves SWAT

If Fannie Mae approves the SWAT, the Special Servicer will be granted a limited power of attorney to take all actions on behalf of Fannie Mae, as the noteholder and record lien holder, in accordance with the approved SWAT. In addition, if the Special Servicer or its legal counsel determines that, with respect to a specific Non-Performing Mortgage Loan, a waiver of actions otherwise required in this Chapter is required by local law or a waiver will result in a more effective default resolution, then the Special Servicer must document the appropriate action through the SWAT.

E. Fannie Mae Does Not Approve SWAT

If Fannie Mae and the Special Servicer are not in agreement with the recommended Course of Action and the SWAT is not approved by Fannie Mae:
the Lender may purchase the Non-Performing Mortgage Loan from Fannie Mae without expectation or ability to utilize the Lender's recourse obligation, as provided in this Chapter; or

Fannie Mae may select or implement a Course of Action of its choosing. In such an event, the Lender must reimburse Fannie Mae, within one (1) month following written demand with supporting documentation of the amounts expended, for all costs incurred by Fannie Mae in connection with its implementation of the Course of Action. Fannie Mae may require settlement of any claims at any time before completion of the Course of Action, based on a valuation process and reasonable estimates of its future costs. All sums paid by Lender pursuant to this provision shall not be deemed Actual Losses and shall not be reimbursed to Lender or credited against the Lender's recourse obligation.

F. Updating SWAT

It is essential for the Special Servicer and Fannie Mae to have open and timely communication throughout the SWAT process. Therefore, all SWATs must be updated and resubmitted to Fannie Mae Special Asset Management until final disposition of the Non-Performing Mortgage Loan at the following intervals:

- within three (3) Business Days after the Special Servicer's receipt of new information impacting the approved SWAT that changes its elected Course of Action, including granting any forbearance, changing any listing prices or sales strategies for the Property;
- at least ten (10) Business Days prior to a Non-Performing Mortgage Loan repurchase by Lender in accordance with this Chapter;
- at least five (5) Business Days prior to foreclosure sale, with a foreclosure strategy and bid justification to be determined as provided above in this Chapter;
- at least five (5) Business Days prior to the execution of any purchase and sale agreement for the Property; and
- at least every six (6) months after the initial SWAT submission even if no changes have been made.

G. Failure to Timely Deliver SWAT

If Fannie Mae notifies the Special Servicer that it has failed to submit a SWAT in accordance with this Section, the Special Servicer must prepare and submit the SWAT within fifteen (15) Business Days following Fannie Mae's notification. Any continued failure to submit a required SWAT may result in Fannie Mae selecting or implementing a Course of Action of its choosing. In such an event, within one (1) month following written demand with supporting documentation of the amounts expended, the Lender must reimburse Fannie Mae for all costs incurred by Fannie Mae in connection with its implementation of the Course of Action. Fannie Mae may require settlement of any claims at any time before completion of the Course of Action,
based on a valuation process and reasonable estimates of its future costs. All sums paid by Lender pursuant to this provision shall not be deemed Actual Losses and shall not be reimbursed to Lender or credited against the Lender's recourse obligation.

H. No Credit Against Recourse

No credit against a Lender's recourse obligation will be given without an approved SWAT.

Section 709. Special Servicing of Primary Risk Mortgage Loans

Section 709.01 Fannie Mae Performs Loss Mitigation Actions

For all Non-Performing Primary Risk Mortgage Loans, Fannie Mae is the Special Servicer and makes all decisions regarding loss mitigation and actions to be taken under the Dual Track Approach, including selecting and implementing a Course of Action. Therefore, the Servicer must remain in close contact with Fannie Mae Special Asset Management regarding all Primary Risk Mortgages. Because of the loss sharing between Fannie Mae and the Lender, Fannie Mae will:

- provide the Lender with copies of correspondence and pleadings related its loss mitigation;
- include the Lender in discussions regarding the selection and implementation of the Course of Action; and,
- provide the Lender with regular updates regarding the status of the Non-Performing Primary Risk Mortgage Loan.

Notwithstanding the foregoing, if the Lender or any of its subsidiaries or affiliates holds any equity interest in the Borrower (either as a direct investment or as a mezzanine lender), Fannie Mae will not provide any correspondence or communications to the Lender regarding the Non-Performing Primary Risk Mortgage Loan, other than copies of any correspondence required to be given to the Borrower.

Fannie Mae Special Asset Management will be the Servicer's primary point of contact during default resolution. While Fannie Mae makes all decisions on Primary Risk Mortgage Loans, including application of payments, handling of reserves, and reinstatement of the Mortgage Loan, the Servicer must comply with Fannie Mae’s determinations as part of its servicing duties. If a Servicer takes any action on a Non-Performing Primary Risk Mortgage Loan without the prior approval of Fannie Mae, such action will constitute a breach of the Servicer's obligations to Fannie Mae.

Section 709.02 Servicing Transfer Memo

The Dual Track Approach requires a more formal relationship with the Borrower during the default resolution process. The Servicer and Fannie Mae must work together to collect the
data and documentation needed to engage counsel and commence foreclosure proceedings. The Servicer is required to prepare a Servicing Transfer Memo (Form 4808). The Servicing Transfer Memo must be timely completed by the Servicer and delivered to Fannie Mae pursuant to Section 707.01 of this Chapter. Following the transfer of the Non-Performing Mortgage Loan to Fannie Mae, the Servicer must have no conversations or communication with the Borrower regarding the defaults, the Property condition, possible workouts or reinstatement, or other matters typically handled by the Special Servicer.

Section 710. Engagement of Legal Counsel

Section 710.01. Fannie Mae Retains Legal Counsel

All legal counsel, whether for Primary Risk Mortgage Loans or Secondary Risk Mortgage Loans, must be retained by Fannie Mae. An Engagement of Counsel Letter will be used to document the contractual engagement and a copy will be provided to the Servicer and Special Servicer.

Section 710.02. Primary Risk Mortgage Loans

For Primary Risk Mortgage Loans, Fannie Mae will refer the matter to legal counsel in the Property jurisdiction. The legal counsel will provide copies of all correspondence, pleadings and documents to the Servicer, the Lender (if different from the Servicer) and Fannie Mae, unless Fannie Mae's attorney-client privilege requires otherwise. Neither the Lender nor the Servicer (if different from the Lender) is permitted to have any conversations with legal counsel on Primary Risk Mortgage Loans, without also including a representative of Fannie Mae's Special Asset Management.

Section 710.03. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Special Servicer must refer the matter to Fannie Mae's legal counsel in the Property jurisdiction pursuant to the approved SWAT. Fannie Mae will provide a listing of legal counsel on retainer with Fannie Mae in the Property jurisdiction for the Special Servicer's choice or Fannie Mae will provide a recommendation to the Special Servicer based upon the nature of the default and other facts unique to the Non-Performing Mortgage Loan. Prompt completion and approval of the SWAT will give legal counsel sufficient time to complete its conflicts check and to begin the foreclosure process as described in this Chapter by commencing legal action to enforce the assignment of rents and initiating a foreclosure action. The legal counsel will provide copies of all correspondence, pleadings and documents to both the Lender and Fannie Mae, unless Fannie Mae's attorney-client privilege requires otherwise. For Secondary Risk Mortgage Loans, legal counsel will provide its invoices for fees and expenses to the Special Servicer for payment.
Section 710.04. Payment of Legal Counsel Fees

A. Primary Risk Mortgage Loans

Fannie Mae will pay all legal counsel fees for Primary Risk Mortgage Loans, which counsel fees will be included in the calculation of final settlement of loss. If the Lender or Servicer chooses to retain separate legal counsel on Primary Risk Mortgage Loans, the fees and costs of the Lender's or Servicer's legal counsel will not be included in the final settlement of loss.

B. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Special Servicer shall pay all legal counsel fees; however, prior to the Lender's repurchase of the Secondary Risk Mortgage Loan as provided in this Chapter, the outside counsel represents Fannie Mae as the noteholder. Notwithstanding the payment of legal fees by the Special Servicer, so long as Fannie Mae is the noteholder, Fannie Mae is the client to outside counsel pursuant to the Engagement of Counsel Letter, and the payment of legal fees by the Special Servicer shall not be deemed to have created an attorney-client relationship between the Special Servicer and outside counsel. For Secondary Risk Mortgage Loans, the Special Servicer must provide Fannie Mae Special Asset Management with a copy of all invoices for legal services paid on behalf of Fannie Mae, and those legal counsel fees will be included in the calculation of the final settlement of loss.

Section 711. Courses of Action (6-25-12)

Section 711.01. Election and Implementation of a Course of Action

As described in this Chapter, Fannie Mae is the Special Servicer and performs all loss mitigation activities for Primary Risk Mortgage Loans. As such, Fannie Mae as the Special Servicer will elect a Course of Action (either jointly with the Lender, if applicable, or separately, depending upon the specific Course of Action), and implement the elected Course of Action. For Secondary Risk Loans, the Special Servicer shall recommend the Course of Action in the Servicing Workout Action Template (“SWAT”) and, once approved by Fannie Mae, implement such Course of Action.

The Courses of Action are:

- Lender Purchase of Mortgage Loan, as described in Section 711.02;
- Lender Workout, as described in Section 711.03;
- Joint Fannie Mae/Lender Workout (a “Joint Workout”), as described in Section 711.04;
- Foreclosure, as described in Section 711.05; and
- Note Sale or Discounted Loan Payoff, as described in Section 711.06.
A Lender Purchase of Mortgage Loan and a Lender Workout may be exercised solely by the Lender and in the Lender’s sole discretion, subject to the requirements of Sections 711.02 and 711.03 below. A Joint Workout must be agreed to jointly by Fannie Mae and the Lender, and implemented prior to the conclusion of a foreclosure, as provided in Section 711.04 below. A Note Sale or Discounted Loan Payoff, as an alternative to foreclosure, must also be agreed to jointly by Fannie Mae and the Lender, as provided in Section 711.06. Fannie Mae will generally follow the Dual Track Approach and, unless one of the other Courses of Action is being followed, a Foreclosure will be the applicable Course of Action.

Section 711.02. Course of Action – Lender Purchase of Mortgage Loan

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<th>LENDER PURCHASE OF A SECURITIZED MORTGAGE LOAN IS NOT PERMITTED UNLESS THE MORTGAGE LOAN HAS BEEN DELINQUENT FOR FOUR CONSECUTIVE MONTHS. ONLY AFTER THE PASSAGE OF SUCH FOUR CONSECUTIVE MONTH DELINQUENCY PERIOD MAY THE MORTGAGE LOAN BE REMOVED FROM THE SECURITY TRUST. A DELINQUENT MORTGAGE LOAN MUST BE REMOVED FROM THE SECURITY TRUST NOT LATER THAN 24 MONTHS AFTER INITIAL DELINQUENCY.</th>
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A. Primary Risk Mortgage Loans

If the Non-Performing Mortgage Loan is four or more consecutive months delinquent, the Lender, at its option, may purchase the Mortgage Loan from Fannie Mae with its own funds and pursue its own course of action with respect to that Mortgage Loan.

B. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the Lender must specifically indicate this Course of Action on its SWAT, which will serve as documentation of the Lender’s agreement to repurchase the Mortgage Loan. Neither the purchase price nor any losses incurred on a Secondary Risk Mortgage Loan repurchased by the Lender pursuant to this Course of Action will be included in any loss sharing with Fannie Mae or be credited against the Lender’s recourse obligation but will be solely for the account of the Lender.

C. Purchase Price for Mortgage Loans

For Primary Risk Mortgage Loans and Secondary Risk Mortgage Loans purchased pursuant to this Section, unless otherwise provided in the Lender’s Contract, the purchase or repurchase price will be equal to:

- the then unpaid actual principal balance of the Mortgage Loan, plus
- interest as follows:
D. No Fannie Mae Approval Required

The election and implementation of this Course of Action does not require Fannie Mae’s concurrence or approval as long as the Lender complies with the foregoing requirements and exercises this option prior to the foreclosure sale or the conclusion of any other Course of Action.

E. Implementation of Course of Action

If this Course of Action is elected by the Lender, then the Lender may purchase the Non-Performing Mortgage Loan by:

- giving written notice to Fannie Mae of such election, or, if a Secondary Risk Mortgage Loan, indicating such election on the initial SWAT or updated SWAT, no later than 10 Business Days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan and identifying the anticipated purchase date;
- purchasing the Mortgage Loan on the identified purchase date at the purchase price as calculated in Section 711.02.C. above;
- purchasing the Mortgage Loan in the Lender’s own name or the name of an affiliate as indicated on the written notice of its election of this Course of Action, and thereafter implementing its own Course of Action with respect to that Mortgage Loan;
- delivering to Fannie Mae on the identified purchase date the purchase price, together with an original assignment of the Mortgage Loan, in recordable form for the applicable property jurisdiction, and such other assignment documents as may be necessary to fully assign, without recourse, representation, or warranty, Fannie Mae’s interest in the Mortgage Loan to the Lender; and
- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4, Section 405.02 of this Guide.
Within five Business Days following receipt from the Lender of the purchase price and the assignment, Fannie Mae will execute and return to the Lender the original assignment, together with:

- the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);
- the original Mortgage Loan file; and
- such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to the Lender (or its affiliate).

Section 711.03. Course of Action – Lender Workout Election

A. Lender Workout Defined

With any Non-Performing Mortgage Loan in Monetary or Payment Default, the Lender may enter into an arrangement with the Borrower in which the Lender agrees to make its own loan and advance its own funds to the Borrower to cure the defaults (a “Lender Workout”).

Examples of instances where a Lender Workout may be appropriate include:

- Property cash flow shortfall is temporary in nature;
- the Mortgage Loan becomes delinquent within the first year following the sale of the Mortgage Loan to Fannie Mae;
- the cost of the Lender Workout to the Lender may be less than the cost to the Lender of a Joint Workout or foreclosure; or
- Mortgage Loans at Loss Level II or III.

B. Documentation and Terms of Lender Workout

A Lender Workout must be documented as a separate loan from the Lender to the Borrower to meet the Property’s operating needs and fully cure the Monetary or Payment Default. The Lender may place whatever restrictions it deems appropriate on the disbursement and use of the funds. The Lender Workout loan may be unsecured, secured by a subordinate lien against the Property (with Fannie Mae’s prior approval), or secured by other collateral. Any subordinate lien, by its express terms, must be fully subordinated to all Mortgage Loans in favor of Fannie Mae, and must comply with the requirements for junior liens included in Part III of this Guide. The Loan Documents evidencing the Lender Workout loan must clearly indicate that the loan does not in any way affect the status of the Mortgage Loans owned by Fannie Mae or any of Fannie Mae’s rights or remedies in connection therewith, and that the amount owed under the Lender Workout is owed only and directly to the Lender and is not added to Fannie Mae’s Mortgage Loan(s).
C. Lender Workout Has No Impact on Loss Sharing or Recourse Obligation

1. Primary Risk Mortgage Loans

Any sums lent by the Lender or expenses incurred by the Lender in a Lender Workout will not be included in the Final Settlement of Loss for the Primary Risk Mortgage Loan.

2. Secondary Risk Mortgage Loans

Any losses incurred on a Secondary Risk Mortgage Loan as a result of the Lender Workout will be the obligation of the Lender but will not be applied as a credit against the Lender’s recourse obligation.

D. Fannie Mae Approval Required

Before committing to a Lender Workout with the Borrower, the Lender must obtain the written approval of Fannie Mae Special Asset Management. Fannie Mae Special Asset Management will have 10 Business Days from receipt of written notice from the Lender, containing the terms of the Lender Workout to approve or disapprove the Lender Workout Course of Action. With its notice of its intention to enter into a Lender Workout, the Lender must deliver a copy of the proposed Lender Workout documents, including subordinate lien documentation, if applicable, to Fannie Mae Special Asset Management for review and approval prior to execution. The purpose of this review is to determine that:

- the Lender Workout and related documents:
  - do not modify or waive any of the terms of the Mortgage Loan(s), including the Note rate, term, or amortization;
  - do not modify or waive any of the terms of the Collateral Agreements;
  - do not limit, waive, or lessen Fannie Mae’s rights, claims, or remedies under its Security Instrument including, but not limited to, obtaining a priority claim in a bankruptcy proceeding as a result of lending money to the Borrower;
  - do not prevent, or otherwise limit, Fannie Mae from enforcing its rights under the Mortgage Loan Documents in the event the Lender defaults under its workout with the Borrower; or
  - do not violate any bond documentation or Security rules, if applicable;
- the term of the Lender Workout loan does not exceed 24 months; and
- Fannie Mae is satisfied with the performance of any previous Lender Workouts and the total of all Lender Workouts does not materially impact the Lender’s financial condition.
If the Non-Performing Mortgage Loan has been accelerated prior to notice of the Lender Workout, it is in Fannie Mae’s sole discretion to agree to accept less than the full payoff and reinstate the Mortgage Loan.

If Fannie Mae approves the Lender Workout, the Lender must deliver a copy of the executed Lender Workout documents, including a Subordination Agreement, if applicable, to Fannie Mae Special Asset Management and to Fannie Mae Asset Acquisition and Custody. If the Borrower subsequently defaults under the Mortgage Loan after the Lender Workout, then the Servicer must follow the procedure outlined in this Chapter for a Non-Performing Mortgage Loan as if no Lender Workout occurred.

**E. Servicer Makes Delinquency Advances But Fails to Report Mortgage Loan Delinquent**

If a Servicer advances principal and interest payments on a Mortgage Loan with a Monetary or Payment Default, but the Mortgage Loan has not been reported as delinquent on the Multifamily Delinquency System as required in this Chapter, such advances will be considered an unauthorized Lender Workout and will not be considered a Delinquency Advance.

**F. Foreclosure Process Continues Unless Otherwise Agreed to by Fannie Mae**

If a Lender Workout is approved, the foreclosure process will continue until the earlier of the curing of the defaults by the Lender Workout or the foreclosure sale. If Fannie Mae approves the Lender Workout, the Lender must fully implement the Lender Workout on the approved terms, and thereby cure all defaults, prior to any scheduled foreclosure sale or the conclusion of any other Course of Action by Fannie Mae. If the Lender Workout is proceeding and is likely to be consummated, Fannie Mae may agree to reschedule (but not cancel) the foreclosure sale. Any agreement to delay a foreclosure sale or any other Course of Action to allow the implementation of the Lender Workout will be solely in Fannie Mae’s discretion.

**Section 711.04. Course of Action – A Joint Workout**

JOINT WORKOUTS ARE NOT AVAILABLE FOR SECURITIZED MORTGAGE LOANS WHILE THE MORTGAGE LOAN REMAINS IN THE SECURITY TRUST.

**A. Joint Workout Defined**

Either the Lender or Fannie Mae may propose that the Lender and Fannie Mae attempt to negotiate a Joint Workout with the Borrower with respect to a Non-Performing Mortgage Loan. A refinancing of the Non-Performing Mortgage Loan under Fannie Mae’s Defensive Refinance execution as described in Chapter 5 of this Part is a Joint Workout under this Chapter.
B. Delinquency Advances Must Be Made During Negotiation of Joint Workout

If Fannie Mae and the Lender agree upon a Joint Workout, then during the negotiation of the workout agreement, the Servicer must continue to make Delinquency Advances to Fannie Mae in accordance with the Lender’s Contract. (See the Checklist of Issues to Consider in Doing a Workout Analysis (Form 4809) to review the specific tasks to be completed prior to electing a Joint Fannie Mae/Servicer Workout.)

C. Joint Workout Process

The following is a general description of how a Joint Workout process might work.

1. Fact-Finding Meeting

The first contact between the Borrower, Fannie Mae and the Lender will be a fact-finding meeting and will focus on:

- explaining the Dual Track Approach and, if the Pre-Negotiation Letter has not been signed, executing the letter;
- reviewing the documents necessary for the Servicer or Fannie Mae to complete its due diligence and the Asset Review (for a Primary Risk Mortgage Loan) or Asset Audit (for a Secondary Risk Mortgage Loan); and
- the Borrower’s explanation of its requested relief.

2. Fannie Mae and Lender Meeting

A separate meeting between Fannie Mae and the Lender will focus on:

- reviewing the Lender’s and Fannie Mae’s due diligence;
- reviewing the Borrower’s request;
- formulating a response to the Borrower’s request with emphasis on the source and use of funds necessary to implement the Joint Workout; and
- the impact of the Joint Workout on the Lender’s servicing and loss sharing obligations to Fannie Mae and any modifications to each that need to be made.

It is important that any differences between Fannie Mae and the Lender be resolved at this meeting. If the Lender’s contribution to the Joint Workout or a modification to its servicing or loss sharing obligations must be documented, this must be included in a separate document between Fannie Mae and the Lender.
3. Workout Meeting with Borrower

If a Joint Workout appears feasible, Fannie Mae and the Lender will schedule a workout meeting with the Borrower. All parties, including Fannie Mae, the Lender, the Borrower, and their respective legal counsel, must attend and must allow enough time to facilitate a workout. Those in attendance must have authority to execute documents pursuant to a signed Pre-Negotiation Letter. Experience indicates that to be most productive, the workout meeting should start early in the morning and continue until a deal is reached or the parties agree to disagree.

4. Letter of Intent

If agreement is reached on all of the terms of the Joint Workout, counsel will draft a non-binding letter of intent, to be executed during the workout meeting. This letter of intent will set forth each party’s agreements and obligations until the formal, written modification documents are completed. The letter of intent must be specific enough to fully reflect the intent of the parties (other than any modifications to the Lender’s servicing or loss sharing obligations). Until the formal modification documents are completed and executed by all parties, there has been no modification of the terms of the Non-Performing Mortgage Loan or the Borrower’s obligations.

D. Modification, Extension, and Forbearance Fees

The Lender is not permitted to charge or collect from the Borrower a fee for any modification, extension, or forbearance of a Mortgage Loan without the prior written consent of Fannie Mae. If the Lender has a loss sharing obligation to Fannie Mae, then Fannie Mae and the Lender may jointly elect to charge the Borrower a modification, extension or forbearance fee. If Fannie Mae and the Lender elect to charge such fee, and so long as the Lender has a loss sharing obligation to Fannie Mae, Fannie Mae will share such fee with the Lender on the basis of:

- if the applicable Mortgage Loan is a Pre-Review Large Mortgage Loan under Fannie Mae’s Multifamily Underwriting Standards, then pro rata between the Lender and Fannie Mae in accordance with their respective loss sharing percentages for such Mortgage Loan (taking into account any Modified Risk Loss Sharing (as defined in the Master Loss Sharing Agreement) applicable to the Mortgage Loan), or
- if the applicable Mortgage Loan is not a Pre-Review Large Mortgage Loan, then 40 percent to the Lender and 60 percent to Fannie Mae.

E. Triggering Modification Fees; Other Fees

If a Triggering Modification has occurred, a Triggering Modification Interim Loss Sharing calculation was made and a reserve was established against the Lender’s Operational Liquidity (as provided in the Master Loss Sharing Agreement), any fees other than those provided for in Section D above shall be split between Fannie Mae and the Servicer in accordance with their respective
loss sharing percentages at the time of the Triggering Modification (taking into account any Modified Risk Loss Sharing applicable to the Mortgage Loan). Except as provided in Section D above with respect to modification, extension and forbearance fees, and any fees required by Fannie Mae in connection with a Triggering Modification, no other fees required by Fannie Mae in connection with a Mortgage Loan modification, extension or forbearance shall be split between the Lender and Fannie Mae.

F. Foreclosure Process Continues Unless Otherwise Agreed to by Fannie Mae

The discussions with the Borrower in attempting to reach agreement on a Joint Workout are part of Track One of the Dual Track Approach (maintaining dialogue with the Borrower to attempt to resolve the defaults) as outlined in this Chapter. Accordingly, Track Two, the Foreclosure Track, of the Dual Track Approach will continue and will not be postponed or delayed until agreement with the Borrower has been reached and the Joint Workout has been documented. If the Joint Workout is proceeding and is likely to be consummated, Fannie Mae may agree to reschedule (but not cancel) the foreclosure sale. If the parties are unable to agree on a Joint Workout, the parties shall continue to pursue the Track Two approach and proceed to foreclosure or such other Fannie Mae-approved course of action.

Section 711.05 Course of Action - Foreclosure

LENDER PURCHASE OF A SECURITIZED MORTGAGE LOAN IS NOT PERMITTED UNLESS THE MORTGAGE LOAN HAS BEEN DELINQUENT FOR FOUR CONSECUTIVE MONTHS. ONLY AFTER THE PASSAGE OF SUCH FOUR CONSECUTIVE MONTH DELINQUENCY PERIOD MAY THE MORTGAGE LOAN BE REMOVED FROM THE SECURITY TRUST. A DELINQUENT MORTGAGE LOAN MUST BE REMOVED FROM THE SECURITY TRUST NOT LATER THAN 24 MONTHS AFTER INITIAL DELINQUENCY.

A. Primary Risk Mortgage Loans

Unless one of the other Courses of Action described in this Section has been selected, Fannie Mae will instruct outside counsel to vigorously pursue a foreclosure, following the foreclosure process described under Track Two of the Dual Track Approach in Section 712 of this Chapter.

B. Secondary Risk Mortgage Loans

Unless one of the other Courses of Action described in this Section has been selected and, if part of a SWAT approved by Fannie Mae, the Special Servicer will instruct outside counsel to vigorously pursue a foreclosure, following the foreclosure process described under Track Two of the Dual Track Approach in Section 712 of this Chapter.
If foreclosure is the approved Course of Action for a Non-Performing Secondary Risk Mortgage Loan, the Lender must purchase the Mortgage Loan from Fannie Mae. Such purchase of the Mortgage Loan from Fannie Mae is not considered to be the exercise of the Course of Action set forth in Section 711.02, but is part of the foreclosure Course of Action under this Section 711.05 and is to permit the Lender to credit bid at the foreclosure sale and/or if the winning bidder, to permit the Lender to hold title to and operate the Property in the name of the Lender or its designee. In connection with exercising the foreclosure Course of Action, the Lender must purchase the Mortgage Loan under one of the following options, either of which must be identified in the SWAT submitted to Fannie Mae.

1. **Purchase Prior to Foreclosure**

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan prior to foreclosure by:

- indicating on the initial SWAT, or updated SWAT received by Fannie Mae no later than 10 Business Days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan prior to foreclosure, and identifying the anticipated purchase date;

- purchasing, on the identified purchase date, the Mortgage Loan from Fannie Mae at the purchase price as calculated below in this Section 711.05.B;

- purchasing the Mortgage Loan in the Lender’s own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter implementing the foreclosure process in its own name;

- within five Business Days following receipt from the Lender of the purchase price together with an original assignment of the Mortgage Loan, in recordable form, Fannie Mae will execute and return the original assignment, together with:
  - the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);
  - the original Mortgage Loan file; and
  - such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to the Lender (or its affiliate);

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4, Section 405.02 of this Guide;

- after completion of the foreclosure, the Lender or its affiliate will hold title to the Property until disposition;

- the Lender will continue to submit updated SWATs for Fannie Mae’s approval until disposition of the Property, at which time the Lender will
submit its Loss Notification Form (Form 4817) (as provided in Part II of this Guide or in the Lender’s Contract) to Fannie Mae; and

- if the Non-Performing Secondary Risk Mortgage Loan reinstates by the Borrower following the Lender’s purchase but prior to the foreclosure sale, the Lender will not be entitled to credit any future losses on the Mortgage Loan against its recourse obligation.

2. Purchase Immediately After Foreclosure

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan immediately following foreclosure by:

- indicating on the initial SWAT, or updated SWAT received by Fannie Mae no later than 60 Business Days before the foreclosure sale date, that Lender has elected to purchase the Mortgage Loan immediately following foreclosure (assuming Fannie Mae is the winning bidder at the foreclosure sale), and identifying the anticipated foreclosure sale date;

- including with such SWAT an initial Asset Audit prepared no later than 60 days following the Date of Default, and providing to Fannie Mae a final and complete Asset Audit at least 60 Business Days prior to foreclosure;

- no later than 10 Business Days prior to the foreclosure sale date, prepare and deliver to Fannie Mae an original Special Warranty Deed, in recordable form, and an escrow letter as provided below. Fannie Mae will execute and deliver to an agreed-upon escrow agent, pursuant to escrow instructions also prepared by the Lender, the Special Warranty Deed, together with (i) the original Note endorsed, without recourse, representation or warranty, to the Lender, and (ii) the original Mortgage Loan file. Such escrow letter must contain instructions that require the escrow agent, within five Business Days following the foreclosure sale date, to either (a) deliver the Special Warranty Deed and other required documentation to Lender upon Fannie Mae’s confirmation of receipt of the purchase price or (b) return the original Special Warranty Deed and all other documentation to Fannie Mae;

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4, Section 405.02 of this Guide;

- on the foreclosure sale date, the Lender purchases the Property from Fannie Mae at the purchase price as calculated below in this Section 711.05.B;

- the Lender purchases the Mortgage Loan in its own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter owns, operates and manages the Property until disposition;

- the Special Warranty Deed from Fannie Mae must be filed of record immediately following the recording of the foreclosure or trustee’s deed into Fannie Mae; and
the Lender will continue to submit updated SWATs for Fannie Mae’s approval until disposition of the Property, at which time the Lender will submit its Loss Notification Form (Form 4817) (as provided in Part II of this Guide) to Fannie Mae.

3. Purchase Price for Purchase Immediately Prior To or After Foreclosure

For Secondary Risk Mortgage Loans purchased pursuant to this Section, unless otherwise provided in the Lender’s Contract, the purchase or repurchase price will be equal to:

- the then unpaid actual principal balance of the Mortgage Loan, plus
- interest as follows:
  - except for any Securitized Mortgage Loan, interest accrued through the purchase date; or
  - for any Securitized Mortgage Loan, interest for the entire month in which the purchase occurs based on the Security Balance remaining after applying the scheduled Mortgage Loan payment due on the first day of that month; less
- any Delinquency Advance made, but not reimbursed either by Fannie Mae or by or on behalf of the Borrower.

C. Deed-in-Lieu of Foreclosure

Fannie Mae, in its sole discretion, may or may not elect to take a deed-in-lieu of foreclosure for any Primary Risk or Secondary Risk Mortgage Loan.

D. Management of Property Post Title Vesting in Fannie Mae

If Lender has made a Deferred Asset Valuation Date Election under its Master Loss Sharing Agreement, and title to a Property has vested in Fannie Mae, its affiliate or nominee as a result of a Foreclosure Event (as defined in the Master Loss Sharing Agreement) or other judicial process, Fannie Mae shall, except for matters relating to life/safety at the Property, consult with the Lender for purposes of making joint decisions with the Lender with respect to major decisions regarding the management and disposition of the Property, including but not limited to:

- the timing and terms of listing the Property for sale;
- the acceptance of terms of sale of the Property;
- any financing of the Property;
- approval of any business plan with respect to the Property;
- approval of each annual budget for the Property;
any deviation from the approved budget by more than 20 percent with respect to any line item on a semi-annual basis;

approval and implementation of any rehabilitation or renovation plan with respect to the Property;

any decision to and implementation of a plan to develop any or all of the Property;

any capital expenditures in excess of $50,000 with respect to the Property;

engagement of any professional advisors, other than in the ordinary course of business;

entering into any Material Commercial Lease of any space within a Property, other than in the ordinary course of business;

commencement, institution or settlement of any legal proceedings with respect to the Property, other than eviction and termination proceedings in respect of tenant leases and other non-material legal proceedings for the collection of amounts due and owing from third parties and tenants undertaken in the ordinary course of business; and

the decision and implementation of any plan not to rebuild or restore the Property following any casualty or condemnation.

Any request by Fannie Mae with respect to a major decision shall be responded to in writing by the Lender within two Business Days of the making of such request. Any request with respect to a major decision not responded to by the Lender within two Business Days shall be deemed approved.

E. Deficiency Suits

1. General

If a foreclosure sale is conducted with respect to a Property, Fannie Mae shall determine whether to pursue a deficiency against the Borrower or pursue any guarantor who may have liability with respect to such Mortgage Loan post-foreclosure or other final disposition of the Mortgage Loan (a “Deficiency Suit”), if such action is available under applicable state law.

Nothing in this Section E shall be deemed to relieve either Lender or Fannie Mae from any claims of indemnification under the terms of their Contract.

2. Fannie Mae Deficiency Suit Election

If Fannie Mae elects to pursue a Deficiency Suit, and the Lender’s Allocable Percentage with respect to the relevant Mortgage Loan is greater than zero, the Lender may elect to share in the cost and recovery related to such Deficiency Suit. If the Lender elects to participate in such Deficiency Suit, Fannie Mae shall bear 67 percent of the costs and
expenses of such Deficiency Suit, and the Lender shall bear 33 percent of the costs and expenses of such Deficiency Suit. Likewise, any recovery resulting from the Deficiency Suit shall be shared 67 percent to Fannie Mae and 33 percent to the Lender.

If Fannie Mae elects to pursue a Deficiency Suit, whether or not the Lender elects to participate in such Deficiency Suit, Fannie Mae shall make all decisions in its sole and absolute discretion regarding such Deficiency Suit, including but not limited to, selection of counsel, election of venue, relief to be sought, and the settlement of the Deficiency Suit.

3. Lender Deficiency Suit Election

If Fannie Mae elects not to pursue a Deficiency Suit following foreclosure, at the Lender’s request, Fannie Mae shall assign the Deficiency Suit to the Lender, to the extent permitted by law and provided that such assignment shall be at no cost to Fannie Mae, and the Lender may thereafter pursue such Deficiency Suit in its own name. If the Lender does pursue the Deficiency Suit, Fannie Mae may elect to participate in the cost and recovery of such Deficiency Suit. All costs and expenses of such Deficiency Suit will be shared equally between the Lender and Fannie Mae, and likewise, any recovery resulting from such Deficiency Suit shall be shared equally between the Lender and Fannie Mae.

If Fannie Mae elects not to pursue a Deficiency Suit, and the Lender elects to pursue such Deficiency Suit in its own name, Lender shall make all decisions in its sole and absolute discretion regarding such Deficiency Suit, including but not limited to selection of counsel, election of venue, relief to be sought, and the settlement of the Deficiency Suit.

4. Costs and Expenses; Loss Sharing

If the Lender and Fannie Mae are sharing the costs and expenses of any Deficiency Suit, the party prosecuting such Deficiency Suit shall submit copies of all invoices to the other party for reimbursement of the other party’s share of all costs and expenses incurred in connection with such Deficiency Suit. Such invoices shall be submitted no more frequently than every three months and shall be paid within 30 days of receipt.

Any recovery resulting from a Deficiency Suit, regardless of whether Fannie Mae or the Lender has participated in such Deficiency Suit, shall not affect the determination and payment of loss sharing pursuant to the Master Loss Sharing Agreement.

5. Withdrawal from Deficiency Suit

If Fannie Mae and the Lender are participating in a Deficiency Suit, either party may elect at any time to withdraw from the Deficiency Suit, in which case the withdrawing party shall be obligated to share the costs and expenses in the percentages set forth above through the date of its withdrawal. The withdrawing party shall not participate in any recovery.
Section 711.06. Course of Action – Note Sale Election or Discounted Loan Payoff

NOTE SALES OR DISCOUNTED LOAN PAYOFFS ARE NOT AVAILABLE FOR SECURITIZED MORTGAGE LOANS WHILE THE MORTGAGE LOAN REMAINS IN THE SECURITY TRUST.

A. Note Sale and Discounted Loan Payoff Defined

As an alternative to foreclosure of the Property, it may be the best exit strategy for Fannie Mae and the Lender to agree to sell Fannie Mae’s interest as the Noteholder. A sale of the Non-Performing Mortgage Loan to a third party is a “Note Sale”, and accepting less than the full payoff from the Borrower is a “Discounted Loan Payoff”. Such sale of the Non-Performing Mortgage Loan or acceptance of a Discounted Loan Payoff must be on terms mutually-agreeable to Fannie Mae and Lender.

B. Lender Ability to Bid

If Fannie Mae and the Lender agree to consider a Note Sale as the Course of Action for a Non-Performing Primary Risk Mortgage Loan, the Lender will have the option to participate in the Note Sale bidding process with other potential third-party purchasers after Fannie Mae and the Lender have mutually-agreed upon the Note Sale terms and pricing floor. The Lender’s bid will be considered by Fannie Mae on the same basis as any other third-party bids received for the Note Sale. If the Lender is the successful bidder, the Lender will purchase the Non-Performing Mortgage Loan on the same terms as published to all bidders by Fannie Mae or, if utilized, the Note Sale broker. Any such sale of the Non-Performing Mortgage Loan to the Lender shall be without recourse, representation or warranty by Fannie Mae, except as otherwise agreed by Fannie Mae.

C. Any Note Sale or Discounted Payoff Gives Rise to Loss Sharing Event

Any loss incurred by Fannie Mae in connection with a Note Sale or Discounted Payoff is a loss sharing event as contemplated by the Lender’s Contract.

D. Note Sale – Secondary Risk Mortgage Loans

For Non-Performing Secondary Risk Mortgage Loans, the selection of a Note Sale as the Course of Action must be included in the SWAT submitted to Fannie Mae for approval. The approved Note Sales price will be the Asset Value for purposes of determining the reduction in the Lender’s recourse obligation.

If a Note Sale is the approved Course of Action for a Non-Performing Secondary Risk Mortgage Loan, the Lender must purchase the Mortgage Loan from Fannie Mae under one of the following options, either of which must be identified in the SWAT submitted to Fannie Mae.
1. **Purchase Prior to Consummation of the Note Sale with the Third-Party Note Purchaser**

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan from Fannie Mae prior to consummation of the Note Sale by:

- indicating such election on the initial SWAT or updated SWAT, received by Fannie Mae no later than 15 Business Days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan prior to the Note Sale closing and identifying the anticipated purchase date;

- purchasing, on the identified purchase date, the Mortgage Loan from Fannie Mae at the purchase price as calculated in Section 711.05.B.3 above;

- purchasing the Mortgage Loan in the Lender’s own name (or the name of an affiliate as indicated on the approved SWAT), and thereafter consummating the Note Sale with the third-party Note purchaser;

- within five Business Days following receipt from the Lender of the purchase price together with an original assignment of the Mortgage Loan, in recordable form, Fannie Mae will execute and return the original assignment, together with:
  - the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);
  - the original Mortgage Loan file; and
  - such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to Lender (or its affiliate); and

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4, Section 405.02 of this Guide.

2. **Purchase Simultaneously with Consummation of the Note Sale with the Third-Party Note Purchaser**

The Lender may purchase the Non-Performing Secondary Risk Mortgage Loan from Fannie Mae simultaneously with its consummation of the Note Sale by:

- indicating such election on the initial SWAT or updated SWAT, received by Fannie Mae no later than 30 calendar days before the proposed purchase date, that Lender has elected to purchase the Mortgage Loan simultaneously with the Note Sale closing and identifying the anticipated purchase date;

- no later than 10 Business Days prior to the purchase date, prepare and deliver to Fannie Mae an original assignment of the Mortgage Loan, in recordable form, and an escrow instruction letter as provided below. Fannie
Mae will execute and deliver to an agreed-upon escrow agent, pursuant to the escrow instruction letter, the original assignment, together with:

- the original Note endorsed, without recourse, representation or warranty, to the Lender (or its affiliate);
- the original Mortgage Loan file; and
- such other documents as necessary to fully assign, without recourse, representation or warranty, Fannie Mae’s interest in the Mortgage Loan to Lender (or its affiliate). Such escrow instruction letter must contain instructions that require the escrow agent, within five Business Days following the closing of the Note Sale, to either (a) deliver the original assignment and other required documentation to Lender upon Fannie Mae’s confirmation of receipt of the purchase price, or (b) return the original assignment and all other documentation to Fannie Mae;

- all documents delivered to Fannie Mae for execution shall be pursuant to Part V, Chapter 4, Section 405.02 of this Guide;
- on the date of closing of the Note Sale with the third-party purchaser, the Lender will purchase the Mortgage Loan from Fannie Mae at the purchase price as calculated in Section 711.05.B.3 above;
- the Lender purchases the Mortgage Loan in its own name (or in the name of an affiliate as indicated on the approved SWAT), and thereafter simultaneously closes the Note Sale with the third-party purchaser; and
- the assignment of the Mortgage Loan from Fannie Mae must be filed of record prior to the recording of the assignment from the Lender (or its affiliate) to the third-party purchaser of the Note.

E. Discounted Loan Payoff - Secondary Risk Mortgage Loans

For Non-Performing Secondary Risk Mortgage Loans, the selection of a Discounted Loan Payoff as the Course of Action must be included in the SWAT submitted to Fannie Mae for approval. The approved Discounted Loan Payoff amount will be the Asset Value for purposes of determining the reduction in the Lender’s recourse obligation.

If a Discounted Loan Payoff is the approved Course of Action for a Non-Performing Secondary Risk Mortgage Loan, the Lender shall implement the Course of Action by:

- indicating in the initial SWAT, or updated SWAT received by Fannie Mae no later than 10 Business Days before the proposed payoff date, that Lender has elected such Course of Action and identifying the anticipated payoff date;
- delivering to Fannie Mae on the identified payoff date the payoff amount as calculated in Section 711.02.C above; and
the Lender must follow the post-payoff actions as described in Part V, Chapter 2, Section 215 of this Guide.

**Section 712. Dual Track Approach**

The Dual Track Approach and other requirements of this Section 712 apply to all Non-Performing Primary Risk Mortgage Loans and Non-Performing Secondary Risk Mortgage Loans.

For Secondary Risk Mortgage Loans, the Special Servicer must follow the Dual Track Approach as outlined here, unless revised by an approved SWAT. Unless the Lender has previously elected either the Lender Purchase or Lender Workout Course of Action, the Dual Track Approach (including the foreclosure process) must be immediately commenced by the Special Servicer following the transfer of the Non-Performing Mortgage Loan to the Special Servicer for default resolution.

**Section 712.01. Dual Track Approach Generally**

The most effective and efficient approach to resolving a Non-Performing Mortgage Loan requires pursuing dual tracks concurrently:

- dialogue with the Borrower; and
- foreclosure process.

To be effective, both tracks of the Dual Track Approach must be pursued aggressively to ensure the Borrower understands the gravity of its default. The Dual Track Approach must be implemented immediately for all reported defaults, regardless of the Special Servicer's subsequent election of remedy to resolve the default. While the Dual Track Approach is described in detail in this Chapter, the default resolution process remains a case-specific process and not every case will fit perfectly into this approach.

**Section 712.02. Waiver of Dual Track Approach**

For Secondary Risk Mortgage Loans, exceptions to the Dual Track Approach require a written waiver from Fannie Mae Special Asset Management, in the approved SWAT submitted pursuant to Section 705.01. If the outside counsel determines that a waiver to the Dual Track Approach is required by local law or if the Special Servicer determines that a waiver will result in more effective resolution of the default, then the Special Servicer must submit a written waiver request to Fannie Mae Special Asset Management in the SWAT, providing the reasoning for the waiver.
Section 712.03.  Track One: Dialogue with the Borrower

A.  Purpose of Track One

Track one involves maintaining a dialogue with the Borrower during calendar days two (2) through 60, beginning immediately after the initial Payment Default or discovery of a non-monetary default that may become a Performance Default if not timely cured.  When there is a default under a Mortgage Loan, it is absolutely essential that the Servicer immediately contact the Borrower to determine the cause of the default and to begin discussion on how the default will be cured.  Until the Non-Performing Mortgage Loan is transferred to special servicing, the Servicer must maintain a dialogue with the Borrower and Fannie Mae Special Asset Management about an acceptable resolution of the Mortgage Loan’s default.

The first 30 calendar days of the Dialogue Track are focused on working with the Borrower to collect all sums due and owing or curing any possible Performance Default.  While calendar days 31 through 60 continue to focus on collections or curing the default, the focus also includes preparing a Non-Performing Mortgage Loan for default resolution.

B.  The First 30 Calendar Days after a Default

During this stage of the Dialogue Track, a Servicer must act quickly and aggressively to establish contact with the Borrower to determine:

- the cause of the Performance Default or Payment Default;
- whether the Borrower will cure the Performance Default within the prescribed cure period or the Payment Default prior to the end of the month in which the missed payment occurred;
- the likelihood of the Borrower making the next month's payment; and
- if the missed payment will not be made, whether the Borrower will voluntarily turn over the monthly net operating income of the Property.

Because Fannie Mae requires Servicers to report all delinquent Mortgage Loans as of the 17th day of the month, Servicers must begin calling and corresponding with delinquent Borrowers as early as a few days after the Payment Due Date or the day before the Late Fee becomes due.  These practices facilitate accurate and timely delinquency reporting to Fannie Mae.  Waiting until the Late Fee becomes due to begin contacting delinquent Borrowers jeopardizes the Servicer’s ability to report and certify delinquent Mortgage Loans on a timely and complete basis.

C.  Calendar Days 31 through 60 after a Payment Default or Performance Default

1.  Primary Risk Mortgage Loans

During calendar days 31 through 60 after a Payment Default or Performance Default, or until the Non-Performing Primary Risk Mortgage Loan is transferred to Fannie Mae...
Mae Special Asset Management as provided in Section 704, the Servicer must remain focused on aggressively pursuing the Borrower to collect all amounts due or assure a cure of the Performance Default. The Servicer must continue to call and correspond with the Borrower and make every attempt to resolve the Payment Default or Performance Default.

2. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, Fannie Mae expects aggressive communication with the Borrower to attempt to resolve the Payment Default or Performance Default quickly, before the need to transfer the Non-Performing Mortgage Loan to its special servicing to prepare the SWAT.

D. Cessation of Dialogue with the Borrower

1. Cessation of Negotiations with the Borrower

Continuing an open dialogue with the Borrower is premised on the Borrower providing documentation necessary to complete:

- the Servicing Transfer Memo for Primary Risk Mortgage Loans; or
- the SWAT for Secondary Risk Mortgage Loans.

It is expected that the Borrower will account for and remit the monthly net operating income from the Property to the Servicer. If the Borrower is not willing to account for and remit the monthly net operating income to the Servicer, then further negotiations with the Borrower must cease immediately.

2. Primary Risk Mortgage Loans

Upon transfer of the Primary Risk Mortgage Loan to Fannie Mae Special Asset Management, the Servicer must cease any further dialogue or correspondence with the Borrower regarding the status of the Non-Performing Mortgage Loan or the Borrower's efforts to cure the default. If the Servicer must engage in further discussions with the Borrower, a representative of Fannie Mae Special Asset Management must be included in the discussions.

3. Secondary Risk Mortgage Loans

Upon transfer of the Secondary Risk Mortgage Loan to the Servicer’s special servicing unit, the Servicer must document any further dialogue or correspondence with the Borrower regarding the status of the Non-Performing Mortgage Loan or the Borrower's efforts to cure the default in its SWAT.
Section 712.04. Track Two: Foreclosure Process

A. The Foreclosure Process

1. Generally

Track two involves initiating the foreclosure process. Experience has shown that if the foreclosure process is delayed until the parties know whether a workout is achievable or an alternative Course of Action is preferred, valuable time is lost. Initiating the foreclosure process has the added benefit of keeping the parties focused on the problem. This overall approach necessarily requires:

- more formal communication with the Borrower; and
- use of outside counsel to document the relationship.

While relationships do not have to be hostile, the Special Servicer’s relationship with the Borrower must be based with a view toward loss mitigation. If the Non-Performing Mortgage Loan is non-recourse to the Borrower, immediate action is necessary to ensure that the Property is not allowed to deteriorate and that net operating income is accounted for and paid each month. Depending on the jurisdiction, the monthly net operating income (gross monthly income after payment of ordinary and customary operating expenses – exclusive of capital expenditures, repairs, or payments to Borrower's affiliates) should be paid directly to the Servicer for remittance to Fannie Mae or held by a receiver until the delinquency is resolved.

2. Engagement of Counsel

The foreclosure process begins with the engagement of outside counsel in the Property jurisdiction as provided in Section 708; however, some of the preliminary notices prior to foreclosure (for example, notice of default, intent to accelerate, or acceleration) may be prepared by the Special Servicer's in-house counsel. Generally, the Special Servicer will direct outside counsel to:

- send or cause to be sent to the Borrower a formal written notice of default or other preliminary notices required prior to foreclosure;
- take immediate action to get control of the net operating income; and
- commence foreclosure.

Outside counsel must furnish the Special Servicer with copies of all documents that are sent to the Borrower or filed with a court (with copies to the Servicer on Primary Risk Mortgage Loans, and to Fannie Mae on Secondary Risk Mortgage Loans) in connection with the foreclosure and any related bankruptcy or other litigation, so that all parties may stay apprised of the status of the foreclosure.
3. Appraisal

If an Appraisal is required as part of the foreclosure process or any related bankruptcy or litigation, the Special Servicer will engage the appraiser using the Form Letter of Engagement for Appraiser (Form 4814). If the Special Servicer determines that the Appraisal should be covered by the attorney-client privilege and kept confidential, the Special Servicer should request either outside counsel or its in-house counsel to send the Engagement Letter for Appraiser. Prior to engaging the appraiser under the attorney-client privilege, the Special Servicer should confirm with outside counsel whether the privilege is likely to apply and what, if any, additional steps would be required to better ensure the protection of the attorney-client privilege. For Secondary Risk Mortgage Loans, if the Special Servicer elects to change the instructions to the appraiser, such request must be included in the SWAT. The cost for this Appraisal is a Delinquency Resolution Cost.

4. Postponement of Foreclosure Sale

Because a foreclosure sale may be postponed due to an impending workout or other alternative Course of Action, or a bankruptcy or other litigation, the Special Servicer must notify outside counsel to confirm the foreclosure sale prior to the scheduled foreclosure date. If the foreclosure sale is to be postponed, the Special Servicer will provide outside counsel with a new sale date, place, and time of the sale.

B. REO Management

1. Maximization of Value of REO

Following foreclosure or other acquisition of title to the Property, the Special Servicer must diligently attempt to maximize the value of any REO acquired with an objective of ensuring that the physical and economic occupancy of the REO is at or above that of comparable property located in the same market as the REO.

2. “Walk Through” Report

To maximize the value of an REO, the Special Servicer must prepare a "walk-through" report detailing the rental status and condition of each unit with recommendations for repair and cost estimates for such repair. (With respect to individual units in a cooperative property, the Special Servicer will not be required to inspect any unit that is not sponsor-owned, vacant, or otherwise permitted to be inspected pursuant to applicable Loan Documents.) This report will be the basis for a management and marketing plan to be prepared by the Special Servicer (for Secondary Risk Mortgage Loans, this will be part of a SWAT submission).

3. Management and Market Plan

The management and marketing plan must include, at a minimum:
- staffing requirements;
- policies regarding tenant applications;
- due diligence;
- credit and previous history;
- late charges;
- returned checks;
- collection of delinquent rents;
- advertising;
- maintenance procedures;
- security deposits;
- rental collections and make-ready procedures;
- comparable rental data;
- information regarding target markets;
- tenant profiles and updated reports when necessary; and
- plans for repairing and restoring the REO to marketable condition, with improvements carefully underwritten to avoid over-improvements to the REO in comparison with similar property in the same market as that in which the REO is located.


It is expected that under ordinary circumstances, the time frame for maximizing the value must not exceed more than six (6) months from the date of acquisition of title to the REO.

The "walk-through" report and management and marketing plan must be in writing and part of the Special Servicer's Servicing File. The report and plan must be completed within one (1) month after the date of acquisition of title to the REO and become a part of Fannie Mae's files for Primary Risk Mortgage Loans or contained in a SWAT submitted with respect to a Secondary Risk Mortgage Loan. The Special Servicer must manage and dispose of the REO in accordance with such management and marketing plan. The REO management and marketing plan must be updated as changed circumstances require and, if a Secondary Risk Mortgage Loan, resubmitted to Fannie Mae as an updated SWAT, either upon the earlier of:

- as new information is available to the Special Servicer as to the management or marketing of the REO, or
- every six (6) months.
Section 712.05. Description of Contractual Relationships

A. Two Contractual Relationships

In resolving delinquencies, two distinct and separate contractual relationships are involved, as follows:

- One is the Borrower/noteholder (Fannie Mae) relationship evidenced by the Loan Documents.
- The other is the Fannie Mae/Lender relationship evidenced by the Lender’s Contract and this Guide.

When the Borrower is in default on the Mortgage Loan, the Borrower is in default under its contractual relationship with Fannie Mae as the noteholder. The Lender’s Delinquency Advance of the scheduled Mortgage Loan payments is based on the Lender’s Contract with Fannie Mae and does not cure any default under the Mortgage Loan nor advance the LPI date. The difference between the actual payment made by the Borrower and the scheduled payment made by the Lender is part of the Final Settlement of Loss that is governed by the Lender’s Contract.

B. No Disclosure of Lender’s Contract Terms to Borrower; Borrower Not a Third Party Beneficiary of Lender Contract

Neither the Lender nor the Servicer (if not the same) must discuss the Fannie Mae/Lender contractual relationship with the Borrower. If the Borrower does not make a payment, regardless of whether the Lender makes a Delinquency Advance of the scheduled payment to Fannie Mae as part of its contractual obligation, the Mortgage Loan must be reported as delinquent by the Servicer and Fannie Mae's records will reflect the Mortgage Loan as delinquent. The Borrower is not a party to, nor a beneficiary of, the Lender’s Contract between Fannie Mae and the Lender. The Lender’s obligation to make Delinquency Advances to Fannie Mae has no impact on the Borrower's obligation to make its payments under the terms of the Note.

C. Primary Risk Mortgage Loans

Because the Lender does not retain an interest in the Mortgage Loan after selling the Mortgage Loan to Fannie Mae, for Primary Risk Mortgage Loans the Lender does not have the authority to take any actions that may impair Fannie Mae's rights or remedies, without Fannie Mae's prior written approval, including, but not limited to:

- making representations on behalf of Fannie Mae;
- waiving rights or remedies of Fannie Mae under the Loan Documents;
- modifying or altering the Loan Documents; or
- voting or making elections for Fannie Mae in any bankruptcy court proceeding.
D. Secondary Risk Mortgage Loans

For Secondary Risk Mortgage Loans, the scope of the Special Servicer's authority to take any actions on behalf of Fannie Mae shall be expressly provided in the limited power of attorney granted by Fannie Mae.

Section 712.06. Asset Audits for Secondary Risk Mortgage Loans

A. Purpose of Asset Audits

An Asset Audit involves much of the same due diligence as the Lender performs during underwriting. This "re-underwriting" is essential to determine:

- the cause of the default;
- the current financial condition of the Borrower;
- the condition of the Property;
- the current market;
- the current condition of the Property management; and
- the cost of curing the default, including sources and uses of funds.

B. Personnel Performing Asset Audits

The Asset Audit must be conducted by experienced workout staff of the Servicer who are not the same personnel as those who inspected the Property and prepared any asset review for the Lender when the Mortgage Loan was originated.

C. Timing of Asset Audits

Simultaneously with pursuing the Dual Track Approach, the Servicer must submit an Asset Audit to Fannie Mae Special Asset Management within 60 calendar days after the Date of Default as part of the SWAT.

Portions of the Asset Audit may take longer than 60 days, such as an environmental assessment and a lead-based paint risk assessment for any Property built before December 31, 1978. If this is the case, all of the information available by the 60th day after the Date of Default must be given to Fannie Mae Special Asset Management. The Servicer may submit a supplement to the Asset Audit as soon as the incomplete items are received. This process will enable Fannie Mae Special Asset Management to become aware of the major issues related to the Mortgage Loan default.

If the Servicer fails to timely provide a completed Asset Audit to Fannie Mae, Fannie Mae reserves the right to perform the Asset Audit itself or through a third party and assess the Servicer for the cost of the Asset Audit.
D. Content of Asset Audits

The Asset Audit must contain, at a minimum, the following:

- a determination of whether the default was economic-related or management-related;
- an on-site inspection to determine the physical condition and occupancy-level of the Property;
- photographs of the Property, improvements, and surrounding properties;
- an income and expense analysis of the Property, including a review of rent collection performance, historical expense levels, and contributions of capital by the Borrower (or its partners, members or shareholders);
- an analysis of the Property relative to the market;
- a thorough analysis of the original underwriting file and the executed Loan Documents;
- an interview of the Key Principals or Principals of the Borrower and the Property management agent to determine the reason for the default and the likelihood and timing of a cure of the default by the Borrower;
- an assessment of the physical condition of the Property to determine whether maintenance of the Property has been deferred that would result in safety or liability concerns and the cost of necessary repairs;
- an environmental assessment, if applicable (see special requirements for environmental assessment in this Section);
- a review of the Borrower's payment history to determine compliance with the terms of the Note;
- a review of the Collateral Agreements for Completion/Repair, Replacement Reserves, Achievement, and Deficit Operation and payment activity to determine whether the reserves were adequately funded and whether the Borrower attempted to maintain the Property in marketable condition;
- a review of the tax and insurance deposits to ensure that payments are current;
- a title insurance update or bring-down to determine whether unauthorized second mortgages or other unauthorized encumbrances exist, or unauthorized transfers have occurred;
- a review of the ability of the Property management agent or of the ability of the Borrower to manage the Property, if owner-managed; and
- a review of the financial capability of the Key Principals or Principals to determine if additional capital is available;
The results of the Asset Audit must be documented in a concise memorandum format for use by all those involved in the selection of a Course of Action.

E. Pre-Negotiation Letter

Attached as an exhibit to the Pre-Negotiation Form Letter (NOI and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter (Form 4812) is a checklist of items and documents to request from the Borrower that will assist the Servicer in conducting the Asset Audit. An Asset Audit may, in the Servicer’s discretion, be dispensed with if the Performance or Payment Default is reasonably determined to be technical in nature or readily susceptible of cure. For example, if the Payment Default results from an inadvertent administrative error in mailing the monthly payment, or if the monthly payment is lost in the mail, an Asset Audit would not be required if the Payment Default is cured within 60 days after the Date of Default. If the Payment Default is not cured within 60 days, the Asset Audit is due as soon as possible after the end of the 60-day period.

F. Special Requirements for the Environmental Assessment

1. Required Statement in Asset Audit

After reviewing the environmental assessment performed at Mortgage Loan origination and conducting a current on-site inspection to review any items noted in the original assessment done at Mortgage Loan origination, the Asset Audit must contain either:

- a statement that there is no material, adverse change in the results of the Phase I ESA or Phase II ESA, if applicable, or no non-compliance with any O&M requirements; or
- a statement that there is a material, adverse change in the results of the Phase I ESA or Phase II ESA, if applicable, or non-compliance with any O&M requirements and a description thereof.

2. Asset Audit Shows Material, Adverse Change

If the Asset Audit reflects a material, adverse change in the environmental condition of the Property, the Servicer must obtain another Phase I ESA or Phase II ESA, if applicable. Even if the Asset Audit does not reflect a material, adverse change, upon review of the Asset Audit by Fannie Mae, Fannie Mae may require the Servicer to obtain another Phase I ESA or Phase II ESA.

3. Engagement of Environmental Consultant

If another environmental assessment is required to be obtained, the Servicer must engage the environmental consultant using the Form Letter of Engagement for Environmental Consultant (Form 4815) unless the Servicer determines that the new Phase
I ESA or Phase II ESA should be covered by the attorney-client privilege and kept confidential. If attorney-client privilege is desired, the Servicer must request either outside counsel or its in-house counsel to send the Engagement Letter for Environmental Consultant. Prior to engaging the environmental consultant under the attorney-client privilege, the Servicer must confirm with outside counsel whether the privilege is likely to apply and what, if any, additional steps would be required to better ensure the protection of the attorney-client privilege.

4. Cost of Environmental Assessment

The cost of the environmental assessment is considered a Delinquency Resolution Cost.

Section 712.07. Dual Track Timeline

This timeline is hypothetical and represents the typical time frames that should be followed for all Non-Performing Mortgage Loans. Specific defaults may require action to be taken sooner or be delayed. For example, the Borrower may have filed for bankruptcy protection and, therefore, the Dual Track timeline must be implemented on an accelerated basis or delayed basis. As provided in Section 710.01 of this Chapter, the default resolution process remains a case-specific process and not every case will fit perfectly into this approach and timeline; however, to the extent this Chapter or this Guide requires certain actions to be taken within a specific time period, those specific time periods are required.

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| March 1 | • Borrower's Mortgage Loan payment is due. Servicer could technically send out a default notice on the 2nd; but, as practical matter would not unless Servicer knew Borrower was not going to pay.  
• Or. Lender becomes aware of Borrower default in performance of its non-monetary obligations under the Mortgage Loan. |                                                                                              |
<p>| March 2-31 | • Servicer calls Borrower to find out cause of missed payment or default and whether default will be cured by the end of the month or if default will continue into the 2nd month [April]. | • The Servicer may contact Fannie Mae Special Asset Management or its Fannie Mae Representative at any time prior to charging the Late Fee to discuss default resolution and whether the Borrower will be able to cure the |</p>
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<th>Date</th>
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<td></td>
<td>• If non-monetary default requires notice to Borrower to begin cure time, Servicer sends written notice of default to Borrower.</td>
<td>default. The recommendation of an early transfer to Special Servicing may be discussed.</td>
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<tr>
<td>March 11 (or day when</td>
<td>• If payment is not received, Borrower is subject to a Late Fees.</td>
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<td>Late Fee can be assessed)</td>
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<td>• If no payment is received, then, under Servicer's letterhead, send out Multifamily No Payment Received Letter – Fees (Optional) Assessed (Form 4807)</td>
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<tr>
<td>March 11 (or day after</td>
<td></td>
<td></td>
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<td>Late Fee can be assessed)</td>
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<tr>
<td>March 11-30</td>
<td>• If full payment received after Late Fee can be assessed, under Servicer's letterhead, send out Multifamily Late Payment Letter – Fees (Optional) Assessed (Form 4805).</td>
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<td>• If partial payment received after Late Fee is incurred, under Servicer's letterhead, send out Multifamily Partial Payment Letter – Fees (Optional) Assessed (Form 4806).</td>
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<tr>
<td>March 17</td>
<td>• Servicer reports status of defaulted Mortgage Loans via Multifamily Delinquency System and certifies that all Non-Performing Mortgage Loans have been reported.</td>
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<td>• Before meeting with Borrower to discuss a potential workout, have Pre-Negotiation Form Letter (NOI and Loan Document Provisions) (Form 4811) or Pre-Negotiation Form Letter” (Form 4812) executed by Borrower, Servicer, Fannie Mae or Lender.</td>
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<tr>
<td>March 18-31</td>
<td></td>
<td>• If Primary Risk, the Mortgage Loan will be special serviced by Fannie Mae, and</td>
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<tr>
<td>Date</td>
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<tr>
<td>March 31</td>
<td>• If full payment is not received by end of month, and if permitted by the Mortgage Loan documents, default interest starts and is imposed from the Date of Default [March 1].</td>
<td>• If Secondary Risk, the Servicer will perform the special servicing.</td>
</tr>
<tr>
<td>April 1</td>
<td>• Borrower's next Mortgage Loan payment is due.</td>
<td></td>
</tr>
<tr>
<td>April 1-30</td>
<td>• Servicer continues dialogue with Borrower to assess whether default will be cured by end of month or if default will continue into the 3rd month [May].</td>
<td>• Fannie Mae remains in contact with the Servicer to discuss collection efforts and whether the Borrower will be able to cure the default. The recommendation of an immediate transfer to Special Servicing may be discussed.</td>
</tr>
<tr>
<td>April 15</td>
<td>• Due diligence begins for Servicing Transfer Memo/SWAT; will likely involve meeting with Borrower to obtain factual information and documents.</td>
<td></td>
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| April 10-30| • For Primary Risk Mortgages Servicer completes Servicing Transfer Memo and forwards to Fannie Mae Special Asset Management. Fannie Mae Special Asset Management and Servicer complete Asset Review.  
  • For Secondary Risk Mortgages Servicer completes SWAT and forwards to Fannie Mae Top Loss Special Asset Management.  
  • An Asset Audit should be completed and forwarded to Fannie Mae Top Loss Special Asset Management if the Course of Action selected on the SWAT is Foreclosure. |                                                                        |
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<td>May 1</td>
<td>- If payment is not received, Engagement of Counsel Letter is executed.</td>
<td>• Once legal counsel is engaged, all written correspondence with Borrower must be from legal counsel.</td>
</tr>
<tr>
<td>May and June</td>
<td>- For Primary Risk Mortgages, Fannie Mae will select Course of Action, unless Lender elects a Lender Purchase or Lender Workout. For Secondary Risk Mortgages, Servicer will select Course of Action in accordance with the approved SWAT.</td>
<td>• Legal counsel starts process to enforce assignment of rents and begins foreclosure process.</td>
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<td>- Election of remedies implemented.</td>
<td>• Primary Risk Mortgage Loans: Foreclosure action continues regardless of Course of Action unless Joint Workout is elected by Fannie Mae and Lender. In that case foreclosure sale would be rescheduled until workout is completed (subject to applicable law).</td>
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<td>• Secondary Risk Mortgage Loans: SWAT is approved and unless a Joint Workout is approved, the Foreclosure action continues. The Lender purchases the Secondary Risk Mortgage Loan from Fannie Mae either prior to or immediately following the foreclosure sale.</td>
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# Part V – Servicing And Asset Management

## Chapter 8 – In Place Loans

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Chapter 8 – In Place Loans

Section 801. General (06/02/14)

Fannie Mae may refinance certain Portfolio Mortgage Loans that do not meet Tier 2 underwriting requirements ("In Place Loans") if:

- the Property securing the Portfolio Mortgage Loan is in good condition (or requires repairs that can reasonably be made in connection with the refinancing);
- Fannie Mae has had a satisfactory relationship with the Borrower; and
- the Portfolio Mortgage Loan may not realistically be able to be refinanced outside of Fannie Mae.

If Fannie Mae elects to purchase an In Place Loan refinanced by the Lender, special attention will be paid to preserving collateral value and mitigating credit risk by:

- improving the Property condition as necessary in an attempt to generate increased cash flow to repay the Mortgage Loan;
- maintaining the Property in good condition over the term of the In Place Loan by requiring good property management and adequately funded Replacement Reserves; and/or
- adding risk mitigating loan terms.

Section 802. In Place Loan Categories (06/02/14)

Section 802.01. Loan Sizing

Portfolio Mortgage Loans are divided into 3 categories:

- Level 1: Portfolio Mortgage Loans that meet the minimum Tier 2 underwriting requirements of the Guide and the Multifamily Underwriting Standards, which are eligible for refinance by the Lender and Purchase by Fannie Mae as provided in Part IIIC, Chapter 3;
- Level 2: In Place Loans that refinance Portfolio Mortgage Loans but do not meet Tier 2 underwriting requirements, as described below described in Section 802.02 of this Chapter; and
- Level 3: In Place Loans that refinance Portfolio Mortgage Loans but do not meet Tier 2 underwriting requirements, as described below described in Section 802.03 of this Chapter.
To calculate the preliminary loan amount of a Level 2 or a Level 3 In Place Loan, the Lender must use an underwriting interest rate equal to the greater of:

- the rate established using current rates and a Tier 2 Plus/Plus Pricing Structure; or
- the applicable Underwriting Floor.

The preliminary pricing and loan amount should not be shared with the Borrower until approved in writing by Fannie Mae, as Fannie Mae reserves the right to adjust the final approved pricing, loan structure and loan amount based upon the individual characteristics of the In Place Loan and the Property.

Section 802.02. Level 2 In Place Loans

Level 2 In Place Loans are Portfolio Mortgage Loans that:

- support an Underwritten DSCR not less than 5 basis points below Tier 2 standards and have a LTV not greater than 5 percentage points above Tier 2 standards;
- are subject to the special pricing and fee limitations set forth in Part IVA, Chapter 2; and
- following approval by Fannie Mae, are committed and delivered by the Lender using the standard committing and delivery process specified in Part IV.

Section 802.03. Level 3 In Place Loans

Level 3 In Place Loans are Portfolio Mortgage Loans that:

- support an Underwritten DSCR greater than 5 basis points below Tier 2 standards or have a LTV greater than 5 percentage points above Tier 2 Standards;
- may require highly customized loan structures and features;
- are subject to the special pricing and fee limitations specified in Part IVA, Chapter 2;
- are committed and delivered using the standard loan committing and delivery process in Part IV; and
- are subject to a post-purchase monitoring process and may require changes in the Lender’s Restricted Liquidity Requirements.

Section 802.04 Level 2 and Level 3 In Place Loans – Generally

If Fannie Mae does not approve an In Place Loan for purchase, then Fannie Mae in its sole discretion (or, for Portfolio Mortgage Loans with loss sharing, Fannie Mae and the Lender, in their joint discretion) may agree to enter into a modification and extension of the Portfolio Mortgage Loan with such additional loan terms as deemed necessary. Any modification or extension of the Portfolio Mortgage Loan, or any new Level 3 In Place Loan refinancing of a
Portfolio Mortgage Loan with loss sharing will be subject to Triggering Modification Interim Loss Sharing under the Lender’s Master Loss Sharing Agreement.

Section 803. Eligibility Requirements (06/02/14)

A Portfolio Mortgage Loan is eligible to be refinanced by the Lender and the In Place Loan purchased by Fannie Mae if:

- during the 12 months preceding the refinance, the Portfolio Mortgage Loan had a timely payment history;
- no unauthorized transfers or changes of the ownership interest in the Borrower occurred;
- no unauthorized Liens were placed or filed against the Property;
- during the 12 months preceding the refinance, the Property operations were stable or indicated a positive trend;
- the Property meets the underwriting and delivery requirements of this Guide in all respects (physical condition, unit mix, occupancy requirements, capital reserve, etc.), except as specifically modified by this Chapter; and
- the Lender is able to demonstrate in the Transaction Approval Memo that the credit risk of the Portfolio Mortgage Loan is reduced by the refinancing and that the refinancing is not merely a delay of an inevitable foreclosure of the Property that may increase any losses from the Portfolio Mortgage Loan in the process.

Section 804. Underwriting Process (06/02/14)

Section 804.01. Generally

Unless specifically modified in this Chapter, an In Place Loan must meet all of the underwriting requirements of:

- Part IIIA – Base Underwriting Requirements;
- any applicable provisions of Part IIIB – Underwriting for Special Asset Classes;
- any applicable provisions of Part IIIC – Underwriting for Special Product Features or Executions;
- the applicable Multifamily Underwriting Standards; and
- the additional underwriting requirements provided in this Chapter.

In all cases, the Lender must exercise prudent judgment and, unless modified by this Chapter, give the same selling and servicing representations and warranties as are required for newly originated Mortgage Loans.
Section 804.02. Specific Underwriting Requirements

A. Borrower Structure and Experience

No modifications are permitted to the underwriting requirements for the Borrower’s structure and experience set forth in Part IIIA, Chapter 4. A new Underwriting Certificate is required from the Borrower, any guarantor of the In Place Loan, and any Key Principal. In addition, the Lender must:

- confirm the original underwriting of the organizational structure, experience and creditworthiness of the Borrower, Key Principal and Principal;
- identify the Key Principals and Principals of the Borrower and report the results of the ACheck for each Borrower, Key Principal, and Principal;
- obtain updated copies of the organizational documents of the Borrower and the Key Principal and confirm that the Borrower’s organization meets the requirements set forth in Part IIIA – Base Underwriting Requirements;
- confirm that no unauthorized change has been made to the organizational structure and organization documents of the Borrower; and
- obtain a new good standing certificate from the jurisdiction where the Borrower is organized.

B. Property Management

The Borrower is required to provide a management plan and a list of major repairs completed during the preceding 3 years, and the Lender must confirm that the Property is capably managed.

C. Occupancy

The Lender is not required to obtain a copy of the Certificates of Occupancy for the Property. However, the Lender should review the original loan files to identify any issues related to the legal status of the Property’s occupancy, and all issues must be clearly outlined in the Lender’s Transaction Approval Memo.

D. Property Zoning, Location, and Condition

The Lender must confirm that there has been no change in the zoning affecting the Property. If the Property zoning has not changed since the time the Portfolio Mortgage Loan was initially underwritten, and the Property is a non-conforming use, then a new zoning and non-conforming use analysis is not required for the Property. However, if the Property has been rezoned causing it to become a non-conforming use, or rezoned to further restrict the ability of an existing non-conforming use to rebuild, then the Lender must deliver a non-conforming use analysis. The Lender is not required to obtain an aerial photograph of the Property.
Section 805. Appraisals, Inspections and Loan Documentation  
(06/02/14)

Section 805.01. Appraisal

An Appraisal is required for all In Place Loans.

Section 805.02. Physical Needs Assessment

The Lender is required to obtain a Physical Needs Assessment for all In Place Loans. It is particularly important that the Borrower makes all needed repairs and improvements, or funds a Completion/Repair Escrow in a sufficient amount so that the Property is either in good condition at refinancing or shortly thereafter. In addition, the Replacement Reserve must be fully funded in an amount that will ensure that the Property is maintained in good condition for the term of the In Place Loan.

Section 805.03. Environmental Assessment

If no Phase I Environmental Site Assessment was performed for the original Portfolio Mortgage Loan, then a Phase I Site Assessment is required for the In Place Loan. If a Phase I Environmental Site Assessment (or, if applicable, a Phase II Environmental Site Assessment) was performed for the Portfolio Mortgage Loan, then it need only be updated by the Environmental Professional re-inspecting the Property to determine if:

- an O&M Plan, if any, has been followed or is now required;
- any other Recognized Environmental Conditions or Business Environmental Risks identified in the original Phase I Environmental Site Assessment, but not the subject of an O&M Plan, have become worse and whether an O&M Plan should be implemented;
- any new Recognized Environmental Condition or Business Environmental Risk is apparent; and
- any nearby land uses subject the Property to any Recognized Environmental Condition or Business Environmental Risk.

Section 805.04. Mortgage Loan Documents

All new Loan Documents are required to document the In Place Loan.

Section 805.05. Title Policy and Survey Requirements

A. Title Policy

A new mortgagee title insurance policy is required for all In Place Loans.

B. Survey
A new survey of the Property is required, unless:

- the new mortgagor title insurance policy for the In Place Loan includes all title exceptions, including those that would appear on the most recent survey provided by the Borrower to the Lender;
- the Borrower certifies that there have been no changes to the Property since the later of (i) the date of the survey referenced in the original title policy for the Portfolio Mortgage Loan, or (ii) the date of most recent survey of the Property; and
- the Lender's inspection of the Property reveals no evidence of new construction on the site or encroachments on the site from adjoining properties.

**Section 805.06. Subordinate Debt**

If the original Portfolio Mortgage Loan has any existing Subordinate Mortgage Loans approved by Fannie Mae which will remain after the financing of the In Place Loan, the subordinate lender must reaffirm the subordination using the appropriate Subordination Agreement. The combined DSCR of the Senior Mortgage Loan and all Subordinate Mortgage Loans must be disclosed for pricing during the underwriting of the In Place Loan.

**Section 806. Fees and Pricing Premiums (xx/xx/14)**

**Section 806.01. Origination Fees**

For maximum Origination Fees for all Level 2 In Place Loans, and maximum underwriting and processing fees for all Level 3 In Place Loans, see Part IVA, Chapter 2.

**Section 806.02. Pricing Premiums**

No pricing premiums are allowed in connection with the financing of In Place Loans.

**Section 806.03. Loan Modification, Extension and Forbearance Fees**

If Fannie Mae agrees (or, for Portfolio Mortgage Loans with loss sharing, Fannie Mae and the Lender jointly agree) to enter into a modification and extension of the Portfolio Mortgage Loan that does not otherwise qualify for refinancing as an In Place Loan in accordance with this Chapter, loan modification fees may be charged in connection with the modification and extension of the Portfolio Mortgage Loan as provided in Part V, Section 711.