



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## Chapter 18 Choice Refinance Loans

### Section 1801 Eligibility

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#### Requirements

A Choice Refinance Loan is a Portfolio Mortgage Loan that is eligible for a streamlined underwriting process which reduces origination costs.

To use the Choice Refinance Loan streamlined underwriting, you must ensure:

Topic	Requirements
Prerequisites	<ul style="list-style-type: none"><li>• You have been the Servicer of the Portfolio Mortgage Loan for the last 12 months.</li><li>• The Choice Refinance Loan complies with Form 4660.</li><li>• The Portfolio Mortgage Loan is not in default.</li><li>• The Borrower has demonstrated a commitment to its obligations under the Portfolio Mortgage Loan by<ul style="list-style-type: none"><li>- maintaining the Property in good physical condition,</li><li>- providing competent Property management services, and</li><li>- complying with the requirements under the Loan Documents.</li></ul></li><li>• The Property<ul style="list-style-type: none"><li>- is operating on a stabilized basis,</li><li>- has a most recent overall inspection rating of 1 or 2, and</li><li>- does not show any adverse change in Property condition, except normal wear and tear, or any life safety issues during the underwriting inspection.</li></ul></li></ul>



Topic	Requirements
Loan History	<ul style="list-style-type: none"><li>• The Portfolio Mortgage Loan:<ul style="list-style-type: none"><li>- has a good payment history, with no delinquencies of 60 days or more during the 3 years immediately preceding the proposed refinance;</li><li>- is not on the current Fannie Mae Watchlist;</li><li>- had no declared non-monetary defaults that remained uncured for more than 120 days;</li><li>- was underwritten and delivered per then-applicable Guide provisions; and</li><li>- is serviced per the Guide.</li></ul></li><li>• There were no unauthorized assumptions or changes in ownership, and no unauthorized Liens filed against the Property.</li></ul>
Additional Collateral	The Portfolio Mortgage Loan does not have a Letter of Credit or additional cash collateral.
Pricing	The pricing that was approved for the Portfolio Mortgage Loan does not apply to the Choice Refinance Loan.
Underwriting	The Choice Refinance Loan, regardless of the Underwritten DSCR, must be of sufficient credit quality to repay the refinanced Mortgage Loan without individually negotiated debt relief.

## Section 1802 Lender Delegation

### Requirements

You are delegated to underwrite the Choice Refinance Loan if:

- the Portfolio Mortgage Loan and the Choice Refinance Loan fall under the same Pre-Review categories in the Form 4660, and Fannie Mae approved those same Pre-Review categories for the Portfolio Mortgage Loan; or
- the Choice Refinance Loan falls under the Pre-Review categories in the Form 4660, and has the same structure as the Portfolio Mortgage Loan, even though the Portfolio Mortgage Loan was not a Pre-Review Mortgage Loan when it was Committed.

In addition, you are delegated to approve a Non-Contiguous Parcel structure



if the same structure was approved for the Portfolio Mortgage Loan.

## Section 1803 Prepayment Premiums

### Requirements

You must not waive any:

- Prepayment Premium based on required yield maintenance; or
- portion of the Minimum 1% Prepayment Premium above the required yield maintenance if the Portfolio Mortgage Loan
  - has a minimum Prepayment Premium other than 1%,
  - will be refinanced before the Yield Maintenance Period End Date, or
  - is a fixed rate MBS Mortgage Loan with an Issue Date before April 1, 1999.

### Guidance

For all other Choice Refinance Loans:

Cash or MBS	You may waive the Minimum 1% Prepayment Premium...
Fixed Rate	<ul style="list-style-type: none"><li>• after the Yield Maintenance Period End Date, or</li><li>• for declining Prepayment Premiums during the 6 months before the Maturity Date.</li></ul>
ARM and SARM	<p>after any lockout if the Portfolio Mortgage Loan</p> <ul style="list-style-type: none"><li>• is being refinanced with a fixed rate 7- or 10-year term, and</li><li>• was either<ul style="list-style-type: none"><li>- an ARM Loan with a Plan Number of 02160, 02254, 02255, 03471, or</li><li>- a SARM Loan with a Plan Number of 03488.</li></ul></li></ul>

## Section 1804 Streamlined Underwriting

### 1804.01 Property Condition Assessment (PCA)

### Guidance



You may use the Streamlined Physical Condition Assessment Requirements (Form 4099.A).

#### 1804.02 Environmental Site Assessment

##### ☒ Requirements

A Phase I Environmental Site Assessment is not required if:

- an Environmental Professional performs an environmental database review and identifies no
  - potential environmental concerns (as defined in ASTM E1528 - Standard Practice for Limited Environmental Due Diligence: Transaction Screen), or
  - adverse conditions requiring further due diligence;
- the Borrower enters into an Environmental Indemnity Agreement (Form 6085); and
- you confirm that the Borrower is appropriately implementing any existing O&M Plans for the Property.

#### 1804.03 Survey

##### ☒ Requirements

Part II, Chapter 3: Legal Compliance, Section 305: Survey does not apply if the:

- new mortgagee title insurance policy includes all title exceptions, including those that would appear based upon the most recent survey provided by the Borrower (whether it is the original survey for the Portfolio Mortgage Loan or a subsequent one);
- Borrower certifies that there have been no changes or improvements to the Property since the later of the date of the survey
  - referenced in the original title policy, or
  - most recently completed; and
- Property inspection report reveals no evidence of new construction or encroachments on the site from construction on adjoining properties.

#### 1804.04 Borrower Structure and Experience



### Requirements

You must:

- Obtain a new Multifamily Underwriting Certificate ([Form 6460 series](#)) from the Borrower, any Guarantor, and any Key Principal.
- Obtain updated copies of the organizational documents of the Borrower and the Key Principal, and confirm that the Borrower's organizational structure complies with [Part II, Chapter 3: Legal Compliance](#).
- Confirm that no unauthorized change has been made to the Borrower's organizational structure or documents.
- Obtain a new good standing certificate from the jurisdiction where the Borrower is organized.

## **1804.05** Borrower Credit

### Requirements

You must obtain and review new financial statements for all parties relevant to the transaction.

For Small Mortgage Loans, you must:

- confirm that the FICO scores of any such individuals comply with [Part III, Chapter 9: Small Mortgage Loans, Section 911.02: FICO Scoring](#); and
- ensure that the net worth and liquidity complies with [Part III, Chapter 9: Small Mortgage Loans, Section 910.06: Net Worth and Liquid Assets](#).

### Guidance

If the Borrower or any Key Principal, Guarantor, or Principal submitted financial statements within the past 12 months, then in lieu of new financial statements, you may accept a certification that there has been no material adverse change from the financial condition or credit standing reflected in the financial statements.

## **1804.06** Property Management

### Guidance

You may elect not to review the Property management or agreement per [Part II, Chapter 1: Attributes and Characteristics, Section 111](#):



## Property Management and Agreement.

### 1804.07 Replacement Reserve

#### Requirements

You must ensure the Replacement Reserve is funded as follows:

If...	Then...
The Property <ul style="list-style-type: none"><li>• is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of the Form 4660, and</li><li>• the market was a Pre-Review Market when the Portfolio Mortgage Loan was originated.</li></ul>	The Borrower must fully fund the Replacement Reserve.
The Property <ul style="list-style-type: none"><li>• is located in a Pre-Review Market that is not eligible for delegation at any Tier per Section II of the Form 4660, but</li><li>• the market was not a Pre-Review Market when the Portfolio Mortgage Loan was originated.</li></ul>	You must determine the Replacement Reserve funding per <a href="#">Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve</a> .
The Property is located in <ul style="list-style-type: none"><li>• a Strong Market,</li><li>• a Nationwide Market, or</li><li>• a Pre-Review Market that is eligible for Tier 3 and Tier 4 Mortgage Loans on a delegated basis per Section II of the Form 4660.</li></ul>	You must determine the Replacement Reserve funding per <a href="#">Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve</a> .

### 1804.08 Real Estate Tax and Insurance Escrows

#### Requirements

You must require T&I escrow deposits for a Tier 2 Choice Refinance Loan





unless Fannie Mae waived the T&I escrow for the Portfolio Mortgage Loan. If you do not require T&I escrow deposits, then you must comply with [Part II, Chapter 4: Inspections and Reserves, Section 405: Escrow Requirements for Taxes and Insurance](#).

## Section 1805 Property Ownership Change

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### Guidance

If at the time of the refinance of the Portfolio Mortgage Loan the Property is being sold to a new owner, then you may use the streamlined underwriting per [Part III, Chapter 18: Choice Refinance Loans, Section 1804.01: Property Condition Assessment \(PCA\)](#) and [Part III, Chapter 18: Choice Refinance Loans, Section 1804.02: Environmental Site Assessment](#) provided that you comply with [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals](#) for underwriting the Borrower, Key Principals, Guarantors, and Principals.

You may also use the streamlined underwriting per [Part III, Chapter 18: Choice Refinance Loans, Section 1801: Eligibility](#) for Portfolio Mortgage Loans that were assumed before being refinanced as a Choice Refinance Loan.



# Glossary

## A

ASTM American Society for Testing Materials

## B

Borrower Person who is the obligor per the Note.

### Synonyms

- Borrowers
- Borrower's

## C

Choice Refinance Loan Mortgage Loan refinancing a Portfolio Mortgage Loan using streamlined underwriting per [Part III, Chapter 18: Choice Refinance Loans](#).

### Synonyms

- Choice Refinance Loans

Collateral Property, Personal Property, or other property securing a Mortgage Loan.

## E

Environmental Site Assessment Report (either a Phase I ESA or a Phase II ESA) identifying whether a Property is subject to Recognized Environmental Conditions or Business Environmental Risks.

### Synonyms

- ESA

## F



Form 4660

Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the minimum underwriting requirements (e.g., debt service coverage ratio, loan to value ratio, interest only, underwriting floors, etc.) for all Mortgage Loans.

**Synonyms**

- Multifamily Underwriting Standards

## G

Guarantor

Key Principal or other Person executing a

- Payment Guaranty,
- Non-Recourse Guaranty, or
- any other Mortgage Loan guaranty.

**Synonyms**

- Guarantors

Guide

Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise.

**Synonyms**

- DUS Guide

## I

Issue Date

First day of the month a Security is issued.

## K

Key Principal

Any Person who controls and/or manages the Borrower or the Property, is critical to the successful operation and management of the Borrower and the Property, and who may be required to provide a Guaranty.

**Synonyms**

- Key Principals

## L



## Letter of Credit

Letter of Credit approved by Fannie Mae per [Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit](#).

### **Synonyms**

- Letters of Credit
- Letter of Credit's
- LOC
- LOCs

## Loan Documents

All executed Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan.

### **Synonyms**

- Loan Document
- Mortgage Loan Document
- Mortgage Loan Documents

# M

## Maturity Date

Date all amounts due and owing per the Mortgage Loan become fully due and payable per the Loan Documents.

### **Synonyms**

- Maturity Dates

## MBS

Mortgage-Backed Security

## MBS Mortgage Loan

Mortgage Loan purchased by Fannie Mae in exchange for an issued MBS backed by the Mortgage Loan.

### **Synonyms**

- MBS Mortgage Loans

## Minimum 1% Prepayment Premium

For a prepayment, an amount equal to 1% of the UPB.



## Mortgage Loan

Mortgage debt obligation evidenced, or when made will be evidenced, by

- the Loan Documents, or
- a mortgage debt obligation with a Fannie Mae credit enhancement.

### **Synonyms**

- Mortgage Loans
- Mortgage Loan's

## Multifamily Underwriting Certificate

Multifamily Underwriting Certificate ([Form 6460 series](#)) , and/or other agreement approved by Fannie Mae that provides underwriting information for a Mortgage Loan.

# P

## Plan Number

Number identifying the applicable loan characteristics for any Mortgage Loan that accrues interest at a variable rate at any time during the loan term.

### **Synonyms**

- Plan Numbers

## Portfolio Mortgage Loan

Mortgage Loan purchased by Fannie Mae and held as of a certain date regardless of whether it is a Cash Mortgage Loan or an MBS Mortgage Loan.

### **Synonyms**

- Portfolio Mortgage Loans
- Portfolio Mortgage Loan's

## Pre-Review

Requirement that the Lender obtain Fannie Mae's approval before Rate Lock of a Mortgage Loan.

## Pre-Review Mortgage Loan

Mortgage Loan that is not delegated to you and requires Fannie Mae's approval before Rate Lock.



## Prepayment Premium

For a Mortgage Loan prepayment, amount the Borrower must pay in addition to the prepaid principal and accrued interest per the Loan Documents.

### **Synonyms**

- Prepayment Premiums

## Principal

Person who owns or controls specified interests in the Borrower per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors](#).

### **Synonyms**

- Principals

## Property

Multifamily residential real estate securing the Mortgage Loan, including the

- fee simple or Leasehold interest,
- Improvements, and
- personal property (per the Uniform Commercial Code).

### **Synonyms**

- Properties
- Property's

## Property Condition Assessment

Assessment of the current physical condition and historical operation of the Property.

### **Synonyms**

- PCA
- PNA
- Physical Needs Assessment
- PCAs

# R



## Replacement Reserve

Custodial Account funded during the Mortgage Loan term for major maintenance and replacing capital items per the Loan Documents.

### **Synonyms**

- Replacement Reserves

## S

## Servicer

Primary Person servicing the Mortgage Loan, including

- the originator,
- seller, or
- a third party.

### **Synonyms**

- Servicers
- Servicer's

## T

## Taxes and Insurance

Taxes or assessments that may become a Lien on the Property and insurance premiums.

### **Synonyms**

- T&I
- Tax and Insurance

## W

## Watchlist

The risk rating classification if you or Fannie Mae determine the Mortgage Loan has heightened credit risk.

## Y

## Yield Maintenance Period End Date

Last day on which a Borrower owes yield maintenance for a voluntary Mortgage Loan prepayment.

### **Synonyms**

- Yield Maintenance Period End Dates