Fannie Mae®

Multifamily Selling and Servicing Guide

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Section 205 Cash Out Analysis

☑ Requirements

You must:

- examine the risk of allowing cash out to the Borrower (see Form 4660 for a description of cash out transactions); and
- for New Construction, consider the Mortgage Loan amount relative to the Property's total development cost basis.

When underwriting a cash-out transaction, you must consider and document in the Transaction Approval Memo:

- the amount of hard equity remaining in the Property's debt structure, excluding prior permanent financing costs, such as interest or prepayment premium;
- the length of time the Borrower has owned the Property;
- the Property's
  - effective age, and
  - current physical condition;
- over the ownership period, any improvement in
  - asset quality,
  - the Property's operations (i.e., its NCF), or
  - value;
- if the Property's value increased due to an increase in NCF, rather than a decrease in the capitalization rate; and
- for New Construction, the Property's total development costs basis per the New Construction table:

New Construction	
For...	The Property's total development cost basis includes...
Land	• Purchase price; plus • Value created since Acquisition from - zoning changes, - demolition, - infrastructure improvements, - parcel assembly over time, and - other subjective entitlements. Note: Valuation should be supported by recent land sale activity on a market and cash basis.
Hard Costs	Expenses for: • items including - substructure, - shell, - interiors, - construction services, - equipment, and - furnishings; • developer fee (8% maximum); and • general contractor fee (10% maximum).
Soft Costs	Fees for: • Appraisal, market studies, etc.; • professional services, including - architecture, - engineering, - consulting, - legal, and - accounting; • review, impact, and testing (i.e., surveys, feasibility, environmental, geotechnical); • building permits and utility access; and • any HUD and LIHTC processing.

New Construction	
For...	The Property's total development cost basis includes...
Construction Financing Costs	Expenses for: • construction loan financing, including - interest, and - origination fee; • construction period - real estate taxes, - insurance, and - utilities; and • Bond related fees.
HUD or LIHTC New Construction	Amount supported by the Cost Certification.

Cash Out Transaction Support	
Factor...	Must...
Cash Out Proceeds	Be commensurate with the length of the ownership period.
Property Condition	Have improved or been good over the ownership period.
Property NCF	Have improved over the ownership period.
Property Value	Have increased due to higher NCF over the ownership period.

Glossary

A

Acquisition	Any Purchase of either the: • Propertys fee simple or leasehold interest via a deed transfer; or • Controlling Interest in the Borrower. **Synonyms** • Acquisitions
Appraisal	Written statement independently and impartially prepared by a qualified Appraiser stating an opinion of the Property's market value • as of a specific date, and • supported by the presentation and analysis of relevant market information. **Synonyms** • Appraisals • Appraisal's

B

Bonds	Tax-exempt or taxable multifamily revenue bonds, or other tax-exempt or taxable bonds, issued to finance 1 or more Credit Enhancement Mortgage Loan Properties. **Synonyms** • Bond
Borrower	Person who is the obligor per the Note. **Synonyms** • Borrowers • Borrower's

C

Cost Certification	Independent third-party audit report itemizing the Property's construction and development costs, including a statement of eligible and qualified basis, submitted to the state housing finance agency to obtain IRS Form 8609(s).

F

Form 4660	Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the 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

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

H

HUD	U.S. Department of Housing and Urban Development **Synonyms** • HUD's

I

Improvements	Buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now or hereafter constructed or placed on the Property, including all fixtures (as defined in the UCC). **Synonyms** • Improvements'

L

Low-Income Housing Tax Credit	Federal program offering tax credits to owners of eligible properties that contain low-income occupants and rent restrictions. **Synonyms** • Low-Income Housing Tax Credits • Low Income Housing Tax Credits • LIHTC • LIHTCs

M

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

N

Net Cash Flow	At underwriting or for any specified period, the amount calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • NCF

New Construction	Property recently developed/constructed with any certificates of occupancy received within 12 months before the Commitment Date.

Note	Instrument evidencing a Mortgage Loan obligation, including
	• Form 6010 series,
	• any other Fannie Mae-approved note, and
	• all applicable
	  - addenda,
	  - schedules, and
	  - exhibits.
	
	Synonyms
	• Notes

O

Origination Fee	Fee you charge the Borrower for underwriting and originating the Mortgage Loan. **Synonyms** • Origination Fees

P

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



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