



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 1903.07B Stabilized NCF

### Requirements

You must:

- Confirm the Property will qualify for the full Commitment by
  - evaluating its performance, and
  - assessing whether it meets the projected
    - income,
    - expenses, and
    - NCF.
  
- Use the Forward Loan Conversion Analysis ([Form 4212](#)) to
  - annualize the certified project rent rolls,
  - compare pro forma and actual operating expenses, and
  - calculate the Property's stabilized NCF per
    - this Chapter, and
    - [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) or the applicable Part III chapter based on the specific product.
  
- Submit the Forward Conversion Analysis Summary ([Form 4618](#)) that verifies your Chief Underwriter's involvement and agreement with the analysis.

The permanent Mortgage Loan Delivery Package documentation must include:

- the percentage of the Property's occupied units categorized by
  - bedroom configuration,
  - square footage, and
  - rent type (low income or market rate) delineating any Section 8 or other subsidized rental program tenants;
  
- the Property's actual Effective Gross Income for each of the previous 3 months, including only rental income and permitted other income from the units less any



- rent concessions,
  - reductions,
  - inducements, or
  - forbearance; and
- rental income by rent type (low income or market rate).

You must use the following table to calculate stabilized NCF.

STABILIZED NCF		
Item	Function	Description
1		<p>For each of the most recent trailing 3 months before conversion:</p> <ul style="list-style-type: none"> <li>• determine the Gross Potential Rent from an executed Certification of Project Rent Roll; and</li> <li>• confirm that at least 90% of the units were physically occupied by a Qualified Tenant with an acceptable Lease.</li> </ul>
	EQUALS	GROSS POTENTIAL RENT
2	MINUS	<ul style="list-style-type: none"> <li>• Economic vacancy using the higher of               <ul style="list-style-type: none"> <li>- original Forward Commitment underwriting, or</li> <li>- actual annualized trailing 3-month operating statements.<sup>1</sup></li> </ul> </li> <li>• Include:               <ul style="list-style-type: none"> <li>- concessions if they                   <ul style="list-style-type: none"> <li>▪ are prevalent in the market, or</li> <li>▪ were used to achieve initial stabilization and will remain; and</li> </ul> </li> <li>- a re-leasing cost allowance if the Property has short term leases.</li> </ul> </li> </ul>



STABILIZED NCF		
3	PLUS	For an MAH Property, include annualized other income per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF.
4	PLUS	Commercial income per Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
	EQUALS	EFFECTIVE GROSS INCOME
5	MINUS	<p>Line-by-line operating expenses using the higher of:</p> <ul style="list-style-type: none"> <li>• actual annualized trailing 3-month operating statements; or</li> <li>• original Forward Commitment underwriting, adjusted by substituting the following actual expenses, if known:               <ul style="list-style-type: none"> <li>- real estate taxes;</li> <li>- property liability and other insurance;</li> </ul> </li> </ul> <p>and</p> <ul style="list-style-type: none"> <li>- management fees.</li> </ul>
6	MINUS	Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
	EQUALS	STABILIZED NCF
<p>1 Assess if there was any decline in NRI per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.</p>		



# Glossary

## C

**Commitment** Contractual agreement between you and Fannie Mae where Fannie Mae agrees to buy a Mortgage Loan at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and you agree to Deliver that Mortgage Loan.

**Synonyms**

- Committed
- Commitments

## E

**Effective Gross Income** On an annual basis or any specified period, the total of Net Rental Income plus other income per [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) and the applicable products and features in Part III.

**Synonyms**

- EGI

## F

**Forward Commitment** Commitment to purchase a permanent Mortgage Loan for a to-be constructed or rehabilitated Property.

**Synonyms**

- Forward Commitment's
- Forward Commitments

## G



## Gross Potential Rent

On an annual basis or any specified period, the total actual and potential rent for a Property per [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) and the applicable products and features in [Part III](#).

### **Synonyms**

- GPR

## **L**

### Lease

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.

### **Synonyms**

- Leases

## **M**

### Mortgage Loan Delivery Package

Loan Documents and underwriting material required in connection with the Delivery of a Mortgage Loan.

## **P**

### Project

Multifamily buildings

- on multiple Properties,
- owned by the same Borrower, and
- that comply with [Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership](#).

### **Synonyms**

- Projects



## 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

## R

### Replacement Reserve

Custodial Account the Borrower funds during the Mortgage Loan term for Replacements.

### **Synonyms**

- Replacement Reserves

## U

### Underwritten Net Cash Flow

Net Cash Flow as adjusted by the Lender per [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) and the applicable products and features in [Part III](#).

### **Synonyms**

- Underwritten NCF