



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 2003.07B 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 202: 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>
3	PLUS	<p>For an MAH Property, include annualized other income per <a href="#">Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF</a>.</p>



STABILIZED NCF		
4	PLUS	Commercial income per Part II, Chapter 2: Valuation and Income, Section 202.01: 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 202.01: 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 202: 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 202: 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 202: 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**

### Property

Multifamily residential property securing the Mortgage Loan and including the land (or Leasehold interest in land), Improvements, and personal property (as defined in the Uniform Commercial Code).

### **Synonyms**

- Properties
- Property's

## **R**



## Replacement Reserve

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.

### **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 202: Income Analysis and the applicable products and features in Part III.

### **Synonyms**

- Underwritten NCF