



Multifamily Selling and Servicing Guide

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Section 104

Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF 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 units occupied by students if the

- Property has at least 2 years of operating statements using that method, and
- rental rates are comparable to similar Student Housing Properties.

REQUIRED UNDERWRITTEN NCF (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		<p>GROSS RENTAL INCOME (GRI) market rents for vacant units based on a current rent roll (multiplied by 12), plus:</p> <ul style="list-style-type: none"> • for a Student Housing Property the lower of <ul style="list-style-type: none"> - actual rents in place for occupied units on a per unit basis, or - market rents that would be available if the Property was not leased to students; and • for a Dedicated Student Housing Property the lower of <ul style="list-style-type: none"> - actual rents in place for occupied units on a per unit or by the bed basis, or - market rents for comparable Dedicated Student Housing Properties.



**REQUIRED UNDERWRITTEN NCF
(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)**

Item	Function	Description
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	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.).
4	MINUS	Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12). ¹
5	MINUS	Concessions - the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc. ¹
6	MINUS	Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt. ¹
	EQUALS	NET RENTAL INCOME (NRI)

1 The total of Items 4, 5, and 6 must equal or exceed the greater of

- the difference between the trailing 12-month net rental collections (annualized) and GPR, or
- 5% of GPR.

If trailing 12-month NRI is not available, use a minimum 10% of GPR.

CALCULATION OF OTHER INCOME



**REQUIRED UNDERWRITTEN NCF
(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)**

Item	Function	Description
7	PLUS	<p>Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:</p> <ul style="list-style-type: none"> • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. <p>You must assess the individual monthly other income within the prior full year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).</p> <p>If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), as long as it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.</p>
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
9	MINUS	10% of the actual commercial income. ²
<p>²If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.</p>		
10	PLUS	<p>Premiums³, provided that the income must:</p> <ul style="list-style-type: none"> • 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.



REQUIRED UNDERWRITTEN NCF (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)		
Item	Function	Description
11	PLUS	Corporate premiums ³ , provided that this income must: <ul style="list-style-type: none"> • 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 and vending, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis .
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
³ Premium or corporate premium income cannot exceed 3% of GRI.		
CALCULATION OF OPERATING EXPENSES		



**REQUIRED UNDERWRITTEN NCF
(STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)**

Item	Function	Description
13	MINUS	<p>Line-by-line stabilized 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.</p> <p>You must assess:</p> <ul style="list-style-type: none"> • past operating history; • the appraisers expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrowers budget (in the case of an acquisition). <p>You must analyze historical operations at the Property and apply an appropriate increase over the prior years operations in determining an estimate.</p>
14	MINUS	<p>Property management fee equal to the greatest of:</p> <ul style="list-style-type: none"> • 4% of EGI; • actual property management fee (exclude any portion of a non-arms length property management fee that is subordinated to the Mortgage Loan); or • market property management fee.



REQUIRED UNDERWRITTEN NCF (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)		
Item	Function	Description
15	MINUS	<p>Real estate taxes based on the greatest of:</p> <ul style="list-style-type: none"> • actual future tax bill(s) covering a full calendar year; • prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); <p>or</p> <ul style="list-style-type: none"> • in California, the greater of the Mortgage Loan amount or assessed value, multiplied by the millage rate, plus any special assessments. <p>You must consider any automatic tax reassessment upon acquisition in the next 12-month period.</p>
16	MINUS	<p>Insurance equal to:</p> <ul style="list-style-type: none"> • 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	<p>Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</p>
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
18	MINUS	<p>Replacement Reserve expense per Part III, Chapter 1: Student Housing Properties, Section 105: Replacement Reserve.</p>
	EQUALS	UNDERWRITTEN NCF



Glossary

D

Dedicated Student Housing Property

Multifamily rental Property in which 80% or more of the units are leased to undergraduate or graduate students.

Synonyms

- Dedicated Student Housing

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

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

S



Student Housing Property

A multifamily residential rental property in which 40% or more, but less than 80%, of the units are leased to either undergraduate or graduate students.

Synonyms

- Student Housing