Multifamily Selling and Servicing Guide

Effective as of March 4, 2024

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### 504.01 Underwritten NCF

**Requirements**

You must use the following table to calculate Underwritten NCF for Seniors Housing Properties.

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CALCULATION OF NET RENTAL INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td><strong>GROSS RENTAL INCOME</strong> per Item 1 in Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).</td>
</tr>
<tr>
<td>2</td>
<td>PLUS</td>
<td>Medicaid income (does not include Medicare, which is included in Skilled Nursing income).</td>
</tr>
<tr>
<td>3</td>
<td>PLUS</td>
<td>Skilled Nursing income actual trailing 12-month collections for Skilled Nursing units (if 12-month collections are not available, then actual trailing 6-month collections (annualized)).¹</td>
</tr>
<tr>
<td>4</td>
<td>PLUS</td>
<td>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).</td>
</tr>
<tr>
<td><strong>EQUALS</strong></td>
<td></td>
<td><strong>GROSS POTENTIAL RENT (GPR)</strong></td>
</tr>
<tr>
<td>5</td>
<td>MINUS</td>
<td>Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12).²</td>
</tr>
<tr>
<td>6</td>
<td>MINUS</td>
<td>Concessions the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.²</td>
</tr>
<tr>
<td>7</td>
<td>MINUS</td>
<td>Bad debt the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.²</td>
</tr>
</tbody>
</table>
### REQUIRED UNDERWRITTEN NCF
(SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EQUALS</td>
<td>NET RENTAL INCOME (NRI)¹</td>
</tr>
</tbody>
</table>

1 Skilled Nursing income must not be grossed up to 100% before the 20% deduction is applied. An additional 20% is taken off the Skilled Nursing income.

2 The total of Items 5, 6, and 7 must equal the greater of:

- the difference between the trailing 3-month net rental collections (annualized) and the GPR; or
- the following percentages:
  - Independent Living: if the percentage of Independent Living units is greater than 50%, then use 5% of GPR.
  - Assisted Living (60 total units or more): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimers/Dementia Care units is 50% or greater, then use 5% of GPR.
  - Assisted Living (less than 60 total units): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimers/Dementia Care units is 50% or greater, then use 10% of GPR.
  - Alzheimers/Dementia Care: if the percentage of Alzheimers/Dementia Care units is 100%, then use 10% of GPR.
  - Skilled Nursing units: use 20% of collections based on the trailing period used in determining Skilled Nursing income in Item 3.

You must determine if NRI declined per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and adjust Underwritten NRI as required.

### CALCULATION OF ASSISTED LIVING SERVICE INCOME AND OTHER INCOME

<table>
<thead>
<tr>
<th>8</th>
<th>PLUS</th>
<th>Trailing 12-month nursing/medical income (includes Assisted Living service income).</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>PLUS</td>
<td>Trailing 12-month ancillary income attributable to Skilled Nursing units, if applicable.</td>
</tr>
<tr>
<td>10</td>
<td>PLUS</td>
<td>Trailing 12-month other income for second resident fees, meals, tray service, laundry, special transportation, community fees, parking revenue, and any other income.</td>
</tr>
</tbody>
</table>

### CALCULATION OF NET ENTRANCE FEE INCOME
### REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>PLUS</td>
<td>Net entrance fee income associated with CCRCs resident entrance fee collections minus entrance fee refunds, but not more than the annualized average of the trailing 60-months of net entrance fee income.</td>
</tr>
</tbody>
</table>

### CALCULATION OF COMMERCIAL INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Function</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>PLUS</td>
<td>Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.</td>
</tr>
<tr>
<td>13</td>
<td>MINUS</td>
<td>10% of the actual commercial space income.³</td>
</tr>
<tr>
<td>14</td>
<td>PLUS</td>
<td>Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.³</td>
</tr>
</tbody>
</table>

**EFFECTIVE GROSS INCOME (EGI)**

3 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.

### CALCULATION OF OPERATING EXPENSES
### REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)

<table>
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</tr>
</thead>
</table>
| 15   | MINUS    | 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.  

You must assess:  

- 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 Borrower's budget (in the case of an acquisition).  

You must:  

- analyze historical operations at the Property; and  
- apply an appropriate increase over the prior years operations in determining an estimate.  

| 16   | MINUS    | Property management fee equal to the greatest of:  

- 5% 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.  

| 17   | MINUS    | Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF). |
### REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)

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</tr>
</thead>
</table>
| 18   | MINUS    | Insurance equal to:  
  • 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. |
| 19   | MINUS    | Room expense housekeeping, if applicable. |
| 20   | MINUS    | Meals expense, if applicable. |
| 21   | MINUS    | 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. |
|      | EQUALS   | UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI) |
| 22   | MINUS    | Replacement Reserve expense per Part III, Chapter 5: Seniors Housing Properties, Section 505: Replacement Reserve. |
|      | EQUALS   | UNDERWRITTEN NCF |
Glossary

A

Assisted Living
Seniors Housing Property offering services limited to non-medical personal care, including ADL assistance, which are typically licensed and regulated by a state or local governmental authority.

Synonyms
• AL

B

Borrower
Person who is the obligor per the Note.

Synonyms
• Borrowers
• Borrower's

I

Independent Living
Seniors Housing providing limited programs of assistance for domestic activities (e.g. meals, housekeeping, activities, transportation, etc.), and typically resembles market rate units.

Synonyms
• IL

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
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

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

Synonyms
• Replacement Reserves

Skilled Nursing
Seniors Housing Property with units that are highly regulated and provide 24-hour resident supervision and registered nursing care services.

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