



Fannie Mae®

Multifamily Selling and Servicing Guide

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Chapter 9 Small Mortgage Loans

Section 901 Generally

901.01 Description

Requirements

A Small Mortgage Loan is a Mortgage Loan with an original loan amount of less than or equal to \$9 million.

Guidance

A Small Mortgage Loan may be underwritten per:

- Part I and this Chapter; or
- Part I and Part II, as for a conventional Mortgage Loan.

901.02 Applicability

Requirements

You may use this Chapter to underwrite conventional Mortgage Loans and the following products:

- MH Communities;
- MAH Properties; and
- market rate Cooperative Properties that are not Limited Equity Cooperative Properties.

Section 902 Key Principal Guaranty Obligation

Requirements

You must obtain a Non-Recourse Guaranty ([Form 6015](#)) from each Key Principal.

Section 903 Occupancy

Requirements

Small Mortgage Loans must achieve Stabilized Residential Occupancy as



follows:

If the Property contains...	Then it must have...
10 or more units	at least 90% physical occupancy by Qualified Occupants for the 90 days immediately before the Commitment Date.
Less than 10 units	<ul style="list-style-type: none">• no more than 1 vacant unit as of the Commitment Date, and• an average occupancy by Qualified Occupants of at least 90% for the 12-month period immediately before the Commitment Date.

If a Small Mortgage Loan is secured by an MH Community, then Stabilized Residential Occupancy must comply with [Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy](#).

Section 904 Corporate Leases; Leases to One Entity

➔ Guidance

Entity leases are permitted; but you should analyze the effect of leasing

- more than 10% of the total residential units in the Property to corporations, partnerships, trusts, and other entities, or
- more than 5% of the total residential units to any single corporation, partnership, trust, or other entity.

Entity leases of residential units for residential purposes are considered residential space.

Section 905 Property Income Analysis

905.01 Small Mortgage Loan Underwritten NCF (Underwritten NCF)

☑ Requirements

You must calculate Underwritten NCF as follows:

- for a MAH Property, per [Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703: Property Income and Underwriting](#); except that Replacement Reserves may be calculated per the table in this Section;



- for a MH Community, per Part III, Chapter 6: Manufactured Housing Communities, Section 606: Property Income and Underwritten NCF;
- for a Cooperative Property, per Part III, Chapter 8: Cooperative Properties, Section 804: Income Analysis; and
- for all conventional Small Mortgage Loans, you must use the following table.

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME the lesser of <ul style="list-style-type: none"> • actual rents in place, or • market rents for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12).¹
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units. For example: <ul style="list-style-type: none"> • model units deducted in the model apartment operating expense in the general and administrative category; • owner-occupied units² deducted in the general and administrative category; and • employee units³ deducted in the employee operating expense in the payroll and benefits category.
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Premiums and corporate premiums.
4	MINUS	Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12). ⁴
5	MINUS	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. ⁴



**REQUIRED UNDERWRITTEN NET CASH FLOW
(SMALL MORTGAGE LOANS)**

Item	Function	Description
6	MINUS	Bad debt the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt. ⁴
	EQUALS	NET RENTAL INCOME (NRI)

1(a) In the New York-Northern New Jersey-Long Island, NY-NJ-PA MSA, you may use actual rents in place plus projected increases for rent-regulated units that have rent increases scheduled before, or through, the first 12 months of the loan term. Any units subject to rent regulation on the Commitment Date must be treated as rent-regulated for this calculation even if converting to market rate after origination.

(b) For Properties located in New York City that are currently subject to the J51 Tax Incentive Program, you must ensure that the Gross Rental Income is calculated per Item 1 in [Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis](#).

2 You must deduct owner-occupied units as an expense unless

- the Mortgage Loan is Tier 3 or Tier 4, or
- the Property contains 24 or more units.

3 You must deduct as an expense the portion of the market rent used as employee compensation.

4 The total of Items 4, 5, and 6 must be greater than or equal to

- 3% of GPR for the New York-Northern New Jersey-Long Island, NY-NJ-PA and San Francisco-Oakland-Fremont, CA, Metropolitan Statistical Areas (MSAs), if supported by market and property operations, or
- 5% of GPR for all other MSAs.

CALCULATION OF OTHER INCOME



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
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 month's other income within the prior full-year operating statement; or at a minimum, an operating statement covering at least the trailing 6 month's (annualized).</p>
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases .
9	PLUS	Actual income from STR units.
10	MINUS	10% of the actual commercial space income (total of Items 8 plus 9). ⁵
11	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections. ⁵
12	PLUS	Laundry and vending, and all other income per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis .
5 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		



**REQUIRED UNDERWRITTEN NET CASH FLOW
(SMALL MORTGAGE LOANS)**

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</p> <ul style="list-style-type: none">• lease-up,• rehabilitation, or• other short-term positive or negative factors. <p>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 Borrower's budget (in the case of an acquisition). <p>You must:</p> <ul style="list-style-type: none">• analyze historical operations at the Property;• apply an appropriate increase over the prior years operations in determining an estimate; and• include all STR-related expenses in their respective expense line items, including<ul style="list-style-type: none">- cleaning,- furnishing, and- repairs. <p>You cannot include any operating expense that reflects blanket or bulk discounts that benefit the Borrower or Key Principal (e.g., blanket property or casualty insurance policies, or utilities purchased in bulk). Operating expenses must reflect the Property expenses on a stand-alone basis.</p>



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
14	MINUS	Property management fee equal to the greatest of: <ul style="list-style-type: none"> • 3% of EGI; • actual property management fee (exclude any portion of a property management fee that is subordinated to the Mortgage Loan); or • market property management fee.
15	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) .
16	MINUS	Insurance equal to: <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	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses as detailed in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis .
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
18	MINUS	<p>Replacement Reserve expense equal to the greatest of</p> <ul style="list-style-type: none"> • \$200 per unit, if the Property's overall rating is 1, • \$250 per unit, if the Property's overall rating is 2, • \$300 per unit, if the Property's overall rating is 3, or • the amount required per Part II, Chapter 4: Inspections and Reserves. <p>The Property ratings are the ratings reported on the Comprehensive Assessment Addendum (Comp Assmt Addendum) tab of the MBA Standard Inspection Form.</p>
	EQUALS	UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)

905.02 Underwritten DSCR

Requirements

You must calculate Underwritten DSCR per the following table.

UNDERWRITTEN DSCR ^{1,2}		
Item	Function	Description
1		Underwritten NCF as calculated in Part III, Chapter 9: Small Mortgage Loans, Section 905.01: Small Mortgage Loan Underwritten NCF (Underwritten NCF) .
2	DIVIDED BY	<p>Annual debt service for the Mortgage Loan amount.</p> <p>You must base debt service on a level debt service payment, including amortization, and the greater of</p> <ul style="list-style-type: none"> • the actual note rate, or • the required Underwriting Interest Rate Floor.³



UNDERWRITTEN DSCR ^{1,2}		
Item	Function	Description
1		For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the minimum DSCR requirement for an MAH Property per Form 4660 .
2		For shorter amortization terms, you must <ul style="list-style-type: none"> • calculate the Underwritten DSCR based on the shorter period, and • comply with the minimum DSCR requirement per Form 4660 . <p>The mandatory NRI adjustments in Part II, Chapter 2: Valuation and Income, for Properties with declining NRI do not apply.</p>
3		For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the required Underwriting Interest Rate Floor for an MAH Property per Form 4660 .

Section 906

Property Management

Requirements

To ascertain the property management requirements, you must determine how many years of experience, as of the Commitment Date, the Borrower or any Key Principal has owning or managing residential rental properties, based on the following:

Similar in Size	Unit Range
Small Properties	<ul style="list-style-type: none"> • 1 multifamily property with 5 50 units, or • concurrently owning or managing at least 10 single-family rental units.
Medium Properties	1 multifamily property with 51 100 units.
Large Properties	1 multifamily property with 101 or more units.

As of the Commitment Date, a non-Local Borrower must have at least 2 years of multifamily ownership or property management experience with a property similar in size or larger than the Property.

Property management requirements are as follows.



Property Size	Professional property management or qualified on-site manager required if...
Less than 10 residential units	<ul style="list-style-type: none">• non-Local Borrower, or• Local Borrower resides more than 100 miles from the Property.
10 or more residential units	<ul style="list-style-type: none">• non-Local Borrower, or• Local Borrower with less than 2 years of experience with a property similar in size or larger.

A professional property management company must have an office within 100 miles of the Property when the Borrower or all Key Principals primarily reside more than 100 miles from the Property.

Guidance

A professional property management company should use a written management agreement that complies with [Part II, Chapter 1: Attributes and Characteristics, Section 112: Property Management and Agreement](#).

A qualified on-site manager

- is not required to be a Property resident,
- should generally be on-site during normal business hours, and
- for at least 2 years before the Commitment Date, should have either successfully managed the Property or have demonstrated management experience with a property similar in size or larger than the Property.

Section 907 Property Condition

907.01 Lender's Site Inspection and Lease Audit

Requirements

You must:

- comply with [Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit](#); and
- not Deliver any Small Mortgage Loan if the Property's estimated Completion/Repair costs are greater than 10% of the UPB.



907.02 Site Inspection by Borrower

Requirements

You must ensure that the Borrower or the Key Principal:

- Conducts a physical inspection of the Property.
- Certifies in the Multifamily Underwriting Certificate ([Form 6460](#)) that the physical inspection has been performed.

907.03 PCA

Requirements

You must comply with [Part II, Chapter 4: Inspections and Reserves, Section 403: Property Condition Assessment \(PCA\)](#).

Section 908 Replacement Reserve

Requirements

You must require either full funding or alternative funding (per [Part II, Chapter 4: Inspections and Reserves, Section 405.03: Alternative Replacement Reserve Funding](#)) of the Replacement Reserve for any Tier 2 Small Mortgage Loan on a

- Property not located in an Eligible MSA per Form 4660, or
- Rent-Stabilized Property located in the New York-Newark-Jersey City, NY-NJ-PA MSA.

For all other Small Mortgage Loans, you must determine whether to require funding of the Replacement Reserve.

If you do not require full funding, then you and the Borrower must execute either

- the appropriate Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Partially or Fully Waived) ([Form 6220](#)), or
- the Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Alternative Funding) ([Form 6221](#)).

Section 909 Environmental Matters and Inspections

Requirements



Before the Commitment Date, you must:

- Obtain an Environmental Screening of the Property using the ASTM E-1528 protocol.
- Perform a physical site inspection of the Property.
- Notify the Appraiser of any Recognized Environmental Condition or “non-scope considerations” that would impact the value of the Property.
- Determine if an O&M plan is appropriate to address a Recognized Environmental Condition.
- Determine if the state where the Property is located has an environmental super-lien statute, and ensure that the Property conditions are not likely to result in such a lien.
- Disclose any actual or suspected environmental conditions not disclosed in the ESA.
- Evaluate the potential risk posed by any Recognized Environmental Conditions that could result in loss or liability to you, the Borrower, the Property, or Fannie Mae.
- Obtain a copy of any Phase I ESA that the Borrower has in its possession or can obtain.
- Determine, based on the findings of the environmental screening and analysis, whether a Phase I ESA is required and, if so, contract for the report.
- When indicated, contract for a Phase II ESA.
- Disclose any knowledge of actual or suspected environmental problems.

Guidance

You may contract portions of your environmental responsibilities to qualified parties. The environmental screening and analysis may be completed by:

- the engineer conducting the PCA;
- a qualified employee; or
- a qualified non-employee.

Operating Procedures

If a qualified individual performs the environmental screening and analysis, you must:

- Identify the individual.



- Ensure that the individual certifies each environmental analysis.
- Submit a certified copy of each environmental analysis with Folder II of the Multifamily Mortgage Loan Delivery Package Table of Contents ([Form 6502.Folder.II](#)).

Section 910 Borrower, Key Principals, Guarantors, and Principals

Requirements

Except as described below, you must comply with all requirements for the Borrower, Key Principals, Guarantors, and Principals in [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals](#).

910.01 Borrower Organizational Structure

Requirements

Any individual Borrower must not be a Foreign Person.

Although a single asset entity is preferred, the Borrower may be a multi-asset entity.

Guidance

If the Borrower owns multiple assets, then you should obtain and underwrite the Borrower's complete schedule of owned real estate assets. Your underwriting should include the nature, location, cash flows, outstanding mortgage debt, and contingent liabilities of each asset.

910.02 Co-Tenant Borrowers

Requirements

If a Co-Tenant Borrower is not an individual or a trust holding title to assets of an individual, each Key Principal must execute the applicable Guaranty per [Part III, Chapter 9: Small Mortgage Loans, Section 902: Key Principal Guaranty Obligation](#).

A Co-Tenant Borrower must be

- an individual who is not a Foreign Person,
- a single-asset entity, or
- a multi-asset entity.



910.03 Key Principals

Requirements

You must ensure that any individual Key Principal is not a Foreign Person.

910.04 Principals

Requirements

For Small Mortgage Loans, a Principal is any person or entity that holds direct or indirect interests of 50% or more in the Borrower.

910.05 Financial Statements

Requirements

You must:

- obtain
 - a schedule of owned real estate assets, and
 - signed financial statements; and
- verify liquid assets for the 3-months immediately before the Borrower's loan application by obtaining copies complying with the aging requirements per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals](#) of all
 - bank statements, and
 - investment portfolio statements.

910.06 Net Worth and Liquid Assets

Requirements

You must ensure that:

- the combined net worth of the Borrower and all Key Principals equals or exceeds the original principal amount of the Small Mortgage Loan; and
- the combined post-closing liquid assets (excluding any Small Mortgage Loan cash-out proceeds) of the Borrower and all Key Principals equal at least 9 monthly payments of P&I on the Small Mortgage Loan.



→ Guidance

You should:

- for net worth, consider the impact of current, long-term, and contingent liabilities compared to the Small Mortgage Loan amount; and
- for liquidity, exclude the following unless you have reasonable justification:
 - retirement funds (such as IRAs and 401Ks); and
 - promissory notes payable to the Borrower or a Key Principal, whether secured or unsecured.

Section 911 Credit Reports

911.01 Credit Report

Requirements

Within 90 days before the Commitment Date, you must obtain credit reports for all individual

- Borrowers,
- Key Principals,
- Guarantors, and
- Principals.

The credit reports must be from at least 2 of the following credit information services:

- Equifax;
- Experian; or
- TransUnion.

911.02 FICO Scoring

Requirements

You must ensure that all individual Borrowers, Key Principals, Guarantors, and Principals meet the Minimum FICO Requirement in Form 4660.

→ Guidance



To determine that the Minimum FICO Requirement is met, follow these guidelines:

If...	Then...
You obtain credit reports from 2 of the 3 credit information services for a Borrower, Key Principal, Guarantor, or Principal	Use the lower of the 2 scores.
You obtain credit reports from all 3 credit information services, for a Borrower, Key Principal, Guarantor, or Principal	Use the middle score.
A Small Mortgage Loan has multiple individual Borrowers, Key Principals, Guarantors, or Principals	Use the average of their respective FICO scores.

911.03 Reviewing the Credit Report

Requirements

You must analyze the credit report for each individual Borrower, Key Principal, Guarantor, and Principal.

If the answer to any of the following Guidance questions is “yes”, then the Borrower, Key Principal, Guarantor, or Principal must give you satisfactory explanations, even if they meet the Minimum FICO Requirement.

Guidance

As you analyze the credit report, consider the following questions:

- Have any mortgage late payments occurred in the previous 36 months?
- Have any revolving or installment late payments occurred within the previous 12 months?
- Did you consider any of the credit card or other unsecured debt balances?
- Have any tax liens been filed or reported within the previous 5 years?
- Have any discharged bankruptcies or mortgage foreclosures occurred within the previous 10 years?
- Are there any outstanding judgments or collections higher than \$5,000?



Glossary

A

ASTM American Society for Testing Materials

B

Borrower Person who is the obligor per the Note.

Synonyms

- Borrowers
- Borrower's

C

Co-Tenant Borrower Borrower consisting of tenants-in-common that own the Property in equal or unequal shares.

Synonyms

- Co-Tenant Borrowers

Commitment Date Date a Commitment is confirmed by Fannie Mae per [Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments](#).

Cooperative Property Multifamily residential property owned by a Cooperative Organization.

Synonyms

- Co-op
- Cooperative

F

Foreign Person Person who is not:

- a United States citizen;
- a legal permanent resident; or
- an entity organized and existing under the laws of the United States of America, or its states or territories.



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

Guarantor

Key Principal or other Person executing a

- Payment Guaranty,
- Non-Recourse Guaranty, or
- any other Mortgage Loan guaranty.

Synonyms

- Guarantors

Guaranty

Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.

K

Key Principal

Person who

- controls and/or manages the Borrower or the Property,
- is critical to the successful operation and management of the Borrower and the Property, and/or
- may be required to provide a Guaranty.

Synonyms

- Key Principals
- Key Principal's

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

Local Borrower For Small Mortgage Loans, a Borrower or at least 1 Key Principal of the Borrower that has a primary residence located within 200 miles of the Property.

M

MBA Mortgage Bankers Association

Synonyms

- MBA's

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

Multifamily Mortgage Loan Delivery Package Table of Contents [Form 6502.Folder.I.and.Folder.III](#), [Form 6502.Folder.II](#), or another Fannie Mae-approved Table of Contents for a Mortgage Loan Delivery Package.

Multifamily Underwriting Certificate Multifamily Underwriting Certificate ([Form 6460 series](#)) , and/or other agreement approved by Fannie Mae that provides underwriting information for a Mortgage Loan.

N



Non-Recourse
Guaranty

Guaranty executed by a Key Principal on Form 4501 series or [Form 6015 series](#), or approved by Fannie Mae.

Synonyms

- Guaranty of Non-Recourse Obligations

P

P&I

Principal and interest

Phase I ESA

Environmental Site Assessment conducted per the current ASTM E-1527 standard and the resulting report.

Synonyms

- Phase I Environmental Site Assessment
- Phase I ESAs

Phase II ESA

Environmental Site Assessment conducted per the current ASTM E-1903 standard, or any other post-Phase I ESA, and the resulting report.

Synonyms

- Phase II Environmental Site Assessment

Principal

Person who owns or controls specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors.

Synonyms

- Principals



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

Property Condition Assessment Assessment of the Property's physical condition and historical operation.

Synonyms

- PCA
- PNA
- Physical Needs Assessment
- PCAs

R

Rent-Stabilized Property Property where rent increases on more than 50% of the residential units are limited by state or local statutory controls, not by an Affordable Regulatory Agreement.

Synonyms

- Rent-Stabilized Properties

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

Synonyms

- Replacement Reserves

S

Security MBS, PFP MBS, or REMIC.

Synonyms

- Securities



Small Mortgage Loan

Mortgage Loan with an original loan amount less than or equal to \$9 million.

Synonyms

- Small Mortgage Loans

Stabilized Residential Occupancy

Percentage of Property units physically occupied by Qualified Occupants, per [Part II, Chapter 1: Attributes and Characteristics, Section 105.02: Qualified Occupants](#) as adjusted for the applicable Part III products and features.

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

UPB

Unpaid Principal Balance

Synonyms

- UPBs