Fannie Mae®

Multifamily Selling and Servicing Guide

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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 • 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]

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units. For example: • model units deducted in the model apartment operating expense in the general and administrative category; • owner-occupied units[2] deducted in the general and administrative category; and • employee units[3] 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]
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)

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
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 203: 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	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary, non-recurring items; and • be supported by prior years. 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).
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 111: 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 203: 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	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 (for an Acquisition). You must: • 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 - cleaning, - furnishing, and - repairs. 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.

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
14	MINUS	Property management fee equal to the greatest of: • 3% of EGI; • actual property management fee, provided you - exclude any portion of a property management fee that is subordinated to the Mortgage Loan, and - include any known contractual fee increases occurring over the next 24 months; or • Appraiser's concluded market property management fee.
15	MINUS	Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
16	MINUS	Insurance per Item 17(c) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
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 203: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
18	MINUS	Replacement Reserve expenseequal to the greatest of • $200 per unit, if the Property Condition Rating is 1, • $250 per unit, if the Property Condition Rating is 2, • $300 per unit, if the Property Condition Rating is 3, or • the amount required per Part II, Chapter 4: Lease Audits, Inspections, and Reserves.

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
	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	Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment, including amortization, and the greater of • 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 • calculate the Underwritten DSCR based on the shorter period, and • comply with the minimum DSCR requirement per Form 4660 . The mandatory NRI adjustments in Part II, Chapter 2: Valuation and Income, for Properties with declining NRI do not apply. 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 .		

Glossary

A

Acquisition	Any Purchase of either the: • Propertys fee simple or leasehold interest via a deed transfer; or • Controlling Interest in the Borrower. **Synonyms** • Acquisitions
Appraiser	Person engaged to estimate a Propertys market value per USPAP. **Synonyms** • Appraiser's • Appraisers

B

Blanket Policy	Insurance policy providing coverage for multiple properties and/or multiple perils. **Synonyms** • Blanket
Borrower	Person who is the obligor per the Note. **Synonyms** • Borrowers • Borrower's

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
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

D

Debt Service Coverage Ratio	On an annual basis or any specified period, the ratio of Net Cash Flow to the total of: principal, interest, and required Mezzanine Financing or Hard Pay Preferred Equity payments. **Synonyms** • DSCR

E

Effective Gross Income	For any specified period, the Property's total Net Rental Income, plus commercial income, plus other income, all calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • EGI

F

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

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

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

M

Manufactured Housing Community	Residential real estate development with lots on which manufactured homes are located, together with amenities, utility services, landscaping, roads, and other infrastructure. **Synonyms** • Manufactured Housing Property • MH Community • MH Community's • MH Communities • MHC
Metropolitan Statistical Area	Geographic delineation for a metropolitan area determined by the U.S. Census Bureau. **Synonyms** • MSA • MSA'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 Affordable Housing Property	Property that: • complies with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 702: MAH Property Eligibility; and • is underwritten per Part III, Chapter 7: Multifamily Affordable Housing Properties. **Synonyms** • MAH • Multifamily Affordable Housing • MAH Property

N

Net Cash Flow	At underwriting or for any specified period, the amount calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • NCF
Net Operating Income	At underwriting or for any specified period, the Property's total Effective Gross Income minus operating expenses. **Synonyms** • NOI

Net Rental Income	For any specified period, the Property's net rental income calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • NRI

Note	Instrument evidencing a Mortgage Loan obligation, including
	• Form 6010 series,
	• any other Fannie Mae-approved note, and
	• all applicable
	  - addenda,
	  - schedules, and
	  - exhibits.
	
	Synonyms
	• Notes

P

Pricing and Underwriting Tier	Tier 1, Tier 2, Tier 3, or Tier 4 per the Multifamily Underwriting Standards (Form 4660). **Synonyms** • Tier
Principal	Person who owns or controls, in the aggregate, directly or indirectly (together with that Person's Immediate Family Members, if an individual), 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 Rating	An assessment of the Propertys overall condition per the MBA Standard Inspection Form, expressed on a scale from 1 (the best Property Condition Rating) to 5 (lowest Property Condition Rating). **Synonyms** • Property Condition Ratings

R

Replacement Reserve	Custodial Account the Borrower funds during the Mortgage Loan term for Replacements. **Synonyms** • Replacement Reserves
Replacements	Capital item replacements and major maintenance needs identified by the Property Condition Assessment or otherwise required. **Synonyms** • Replacement

S

Short Term Rental	Property permitting leases or master leases (including subleases, licenses, and other possessory interests, whether oral or written) of an individual dwelling unit where the intended occupancy of the unit is for less than 30 days, regardless of the stated lease term, such as through a peer-to-peer online marketplace or homestay network (e.g., Airbnb, VRBO, etc.). **Synonyms** • STR • STRs
Small Mortgage Loan	Mortgage Loan with an original loan amount less than or equal to $9 million. **Synonyms** • Small Mortgage Loans

U

Underwritten Debt Service Coverage Ratio	Ratio of Underwritten Net Cash Flow to the annual debt service for a Mortgage Loan amount based on a level debt service payment with the applicable amortization, and calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis, as adjusted for the applicable products and features in Part III. **Synonyms** • Underwritten DSCR
Underwritten Net Operating Income	Net Operating Income 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 NOI