



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 <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



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: <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 resulting 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: include 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 complies with 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: <ul style="list-style-type: none"> • a Tier 3 or Tier 4 Mortgage Loan; • secured by a Property containing 24 units or more; or • secured by a Property that <ul style="list-style-type: none"> - contains less than 24 units, - is a Tier 2 Mortgage Loan, and - requires full personal liability of the Borrower.
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 <ul style="list-style-type: none"> • 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 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>
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
9	PLUS	Actual income from STR units.
10	MINUS	10% of the actual commercial income (total of Items 8 plus 9). ⁵
5 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
11	PLUS	Laundry and vending, parking, and all other income as detailed in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis .
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
12	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> <p>All expenses associated with STRs must be underwritten in their respective expense line items. These expenses include cleaning, furnishing, and repairs.</p> <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
13	MINUS	<p>Property management fee equal to the greatest of:</p> <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.
14	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); or • in California, the greater of the Small Mortgage Loan amount or the assessed value, multiplied by the millage rate, plus any special assessments. <p>You must consider any automatic reassessment upon acquisition in the next 12-month period.</p> <p>You may use a reduced real estate tax payment if the Property's real estate tax abatements, exemptions, or deferrals meet the requirements in Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis.</p>
15	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.



REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
16	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)
17	MINUS	Replacement Reserve expense equal to at least ⁶ <ul style="list-style-type: none"> • \$200 per unit, for a Property with an overall rating of 1, • \$250 per unit, for a Property with an overall rating of 2, or • \$300 per unit, for a Property with an overall rating of 3. <p>The Property ratings are the ratings reported on the Comprehensive Assessment Addendum (Comp Assmt Addendum) tab of the MBA Master Inspection Form.</p>
	EQUALS	UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)
<p>6 If a PCA was completed, the Replacement Reserve must equal the amount required per Part II, Chapter 4: Inspections and Reserves, subject to a minimum of \$200 per unit.</p>		

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
<p>1For 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.</p> <p>2For shorter amortization terms, you must</p> <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> <p>3For 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.</p>		



Glossary

B

Borrower Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

C

Commitment Date Date a Commitment is confirmed by Fannie Mae as described in [Part IV A, Chapter 3: Committing](#).

Cooperative Property Multifamily residential property owned by a Cooperative Organization.

Synonyms

- Coop
- Cooperative

K

Key Principal Person(s) who control and/or manage the Borrower or the Property, are critical to the successful operation and management of the Borrower and the Property, and who may be required to provide a Guaranty.

Synonyms

- Key Principals

M

MBA Mortgage Bankers Association



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

Small Mortgage Loan

Mortgage Loan with an original loan amount less than or equal to \$6 million and underwritten per [Part III, Chapter 9: Small Mortgage Loans](#).

Synonyms

- Small Mortgage Loans