



Fannie Mae®

Multifamily Selling and Servicing Guide

Effective as of February 12, 2025

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703.01 Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF.

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		<p>GROSS RENTAL INCOME the least of:</p> <ul style="list-style-type: none"> • rents permitted under any federal, state, or local subsidy program applicable to the Property, as adjusted for AMI, family size, and number of bedrooms in a unit, and reductions for the applicable utility allowances¹; • rents permitted under any restrictive covenants, subordinate financing requirements, or an Affordable Regulatory Agreement recorded on the Property; or • based on a current rent roll, <ul style="list-style-type: none"> - actual rents in place for occupied units, plus - for vacant units, the lowest of: <ul style="list-style-type: none"> ▪ actual rents in place for comparable occupied units; ▪ market rents; and ▪ permitted rents, described above (multiplied by 12).² <p>Rent from non-project based Housing Choice Vouchers must not exceed the average rent for comparable units without non-project based Housing Choice Vouchers.</p> <p>You must include incremental HAP contract income per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 707.01: Properties with Both HAP Contracts and LIHTC Units.</p>
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) ¹
3	MINUS	Physical vacancy applicable actual rents for vacant units and MAH unit type (e.g., 20% @ 50%, 40% @ 60%, or HAP contract) based on a current rent roll (multiplied by 12). ³



REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
4	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. ³
5	MINUS	Bad debt the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt. ³
	EQUALS	NET RENTAL INCOME (NRI) ^{2, 3, 4}



**REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)**

Item	Function	Description
1	For Properties with HAP contracts, you	<ul style="list-style-type: none"> • may use newly approved rents if they are effective by the first day of the month after the Mortgage Loan Origination Date, even if the rents exceed trailing GPR, but • may not use rents based on <ul style="list-style-type: none"> - an agreement to enter into a HAP contract (AHAP), - commitment to enter into a Housing Assistance Payment contract (CHAP), or - a "comfort letter".
2	You may underwrite HAP contract rents up to:	<ul style="list-style-type: none"> • 5% above market rents if the MAH Property is located in an Eligible MSA; or • 10% above market rents if the MAH Property is located in a Strong Market, provided the Property's <ul style="list-style-type: none"> - HAP contract expires after the Maturity Date, and - current and average 3-year physical occupancy is greater than or equal to 95%.
3	The total of Items 3, 4, and 5 must equal the greater of	<ul style="list-style-type: none"> • the GPR including any permitted HAP contract rent increases multiplied by the percentage difference between <ul style="list-style-type: none"> - the trailing 3-month net rental collections (annualized), and - trailing GPR excluding any HAP contract rent increases not in effect before the Mortgage Loan Origination Date; and • either <ul style="list-style-type: none"> - 5% of GPR, including any permitted HAP contract rent increases, or - 3% of GPR, including any permitted HAP contract rent increases, if: <ul style="list-style-type: none"> ▪ the Property is located in a Strong or Nationwide Market per Form 4660 ; ▪ for a Property without a HAP contract, the actual rents for restricted units are at least 10% below comparable market rents; and ▪ the economic vacancy (i.e., the total of Items 3, 4, and 5) is supported by current and 3 years of historical economic vacancy data.
4	You must assess the NRI, including any declines, and make adjustments per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis .	
CALCULATION OF OTHER INCOME⁵		



**REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)**

Item	Function	Description
6	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 months (annualized).</p> <p>If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.</p>
<p>5 If premiums or corporate premiums are applicable for a particular MAH Property, inclusion of premium income is permitted consistent with Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.</p>		
CALCULATION OF COMMERCIAL INCOME		
7	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases .
8	PLUS	Actual income from STR units.
9	MINUS	10% of the actual commercial space income. ⁶
10	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections. ⁶
11	PLUS	Laundry and vending, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis .
<p>6 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.</p>		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		



**REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)**

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</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"> • the past operating history; • the Appraiser's 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 year's 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.
13	MINUS	<p>Property management fee equal to the greatest of:</p> <ul style="list-style-type: none"> • 4% of EGI⁷; • actual property management fee, provided you <ul style="list-style-type: none"> - exclude any portion of a non-arm's length 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.



**REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)**

Item	Function	Description
		<p>7 Minimum management fee may be 3.5% of EGI (rather than 4% of EGI) if the:</p> <ul style="list-style-type: none"> • underwritten management fee is at least \$400 per unit; • actual management fee is equal to or less than the underwritten management fee (provided you exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan); and • market management fees support the underwritten management fee for similarly sized MAH properties. <p>If the MAH Property is located in a Strong Market or Eligible MSA and the Mortgage Loan's original UPB is greater than \$9 million, the minimum management fee may be the greatest of</p> <ul style="list-style-type: none"> • 2.5%, • \$500 per unit, • the actual management fee, or • market management fees for similarly sized MAH properties.
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 year's taxes multiplied by 103%; or • in California, the sum of: <ul style="list-style-type: none"> - any special assessments; plus - the millage rate multiplied by the greater of the <ul style="list-style-type: none"> ▪ Mortgage Loan amount, or ▪ assessed value. <p>You must:</p> <ul style="list-style-type: none"> • consider any automatic reassessment upon acquisition in the next 12-month period; and • for any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, underwrite fully assessed real estate taxes.



**REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)**

Item	Function	Description
14 continued	MINUS	<p>If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must:</p> <ul style="list-style-type: none"> • be in effect at closing (or at conversion in the case of a Forward Commitment), per written documentation from the state or local tax assessor; • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, deferral, or PILOT as long as the rent, income, or other restrictions are maintained (i.e., it is tied to the Property and not the owner); and • if governed under the California Welfare Tax Exemption Program, meet the following: <ul style="list-style-type: none"> - if a refinance, the Borrower must be in and remain in compliance with the California Welfare Tax Exemption program; or - if an acquisition or a Transfer/Assumption where the Affiliate with Control of the Borrower (which is typically a non-profit entity), or the non-profit entity itself, is changing you must: <ul style="list-style-type: none"> ▪ escrow at least 6 months of full real estate taxes at closing which will be released after confirming that the California Welfare Tax Abatement is approved and in place at the Property; ▪ ensure that the Borrower has demonstrated experience with the California Welfare Tax Abatement Program; and ▪ ensure that the Borrower is and remains eligible for the California Welfare Tax Abatement Program.



**REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)**

Item	Function	Description
14 continued	MINUS	<p>If governed under the Florida affordable housing property exemption (per Sections 196.1978(1) and (2) of the Florida Statutes),</p> <ul style="list-style-type: none"> • for a refinance, the Borrower must initially be in compliance, and remain in compliance, with the Florida affordable housing property exemption; or • for an acquisition or a Transfer/Assumption, you must: <ul style="list-style-type: none"> - confirm the Borrower applies to the county taxing authority within 60 days after the Mortgage Loan Origination Date; - escrow full taxes until you confirm the Florida affordable housing property exemption is approved and in place at the Property; and - after confirmation, refund the escrowed taxes to the Borrower. <p>If the Property benefits from real estate tax abatements, exemptions, deferrals, or a PILOT that will not survive a Foreclosure Event, then you may use a reduced real estate tax payment only if:</p> <ul style="list-style-type: none"> • upon reapplying for the original underwritten tax abatement or an alternative tax abatement, Fannie Mae or a subsequent Property owner would qualify for the tax abatement; • the rent or income restrictions at the Property are maintained; and • you have ensured that: <ul style="list-style-type: none"> - if a qualified non-profit entity is required to participate in the ownership structure of the MAH Property in order to qualify for the tax abatement, exemption, or deferral, a sufficient number of qualified non-profits currently operate in the market (at least 3 for an MSA with a population of less than 1 million and at least 5 for an MSA with a population of 1 million or greater), and in the event of a foreclosure, could serve in the replacement ownership structure to qualify for the tax abatement, exemption, deferral, or PILOT; and - the original or alternative tax abatement, exemption, deferral, or PILOT has <ul style="list-style-type: none"> ▪ been established in the state's statutes, ▪ been in effect for at least 10 years, and ▪ the Lender conducted all appropriate due diligence and confirmed that there is no material risk that the tax abatement, exemption, or deferral legislation will be repealed or revised in a manner that would affect the Property's ability to continue to qualify for the tax abatement, exemption, deferral, or PILOT.



**REQUIRED UNDERWRITTEN NCF
(MULTIFAMILY AFFORDABLE PROPERTY)**

Item	Function	Description
14 continued	MINUS	<p>If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider:</p> <ul style="list-style-type: none"> • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument); • an amortization schedule that accommodates the elimination of the abatement; or • providing clear justification and support in the refinance analysis. <p>For a Property with a tax abatement, the Modifications to Multifamily Loan and Security Agreement (Tax Abatement or Exemption) (Form 6251) must be executed even if you do not underwrite the tax abatement.</p>
15	MINUS	Insurance per Item 17(c) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
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 per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
17	MINUS	Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
	EQUALS	UNDERWRITTEN NCF



Glossary

A

Affiliate

When referring to an affiliate of a Lender, any other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender.

When referring to an affiliate of a Borrower or Key Principal:

- any Person that owns any direct ownership interest in Borrower or Key Principal;
- any Person that indirectly owns, with the power to vote, 20% or more of the ownership interests in Borrower or Key Principal;
- any Person Controlled by, under common Control with, or which Controls, Borrower or Key Principal;
- any entity in which Borrower or Key Principal directly or indirectly owns, with the power to vote, 20% or more of the ownership interests in such entity; or
- any other individual that is related (to the third degree of consanguinity) by blood or marriage to Borrower or Key Principal.

Synonyms

- Affiliates
- Affiliate's

Affordable Regulatory Agreement

Regulatory, land use, extended use, or similar agreement or recorded restriction limiting rents, imposing maximum income restrictions on tenants, or placing other affordability restrictions on the use or occupancy of the Property (whether imposed by a government entity or self-imposed by a Borrower per the Sponsor-Initiated Affordability Agreement ([Form 6490](#))).

Appraiser

Person engaged to estimate a Property's market value per USPAP.

Synonyms

- Appraiser's
- Appraisers



B

Bifurcated Mortgage Loan

Single Senior Mortgage Loan that is evidenced by 2 Notes with the same payment and collateral priority.

Synonyms

- Bifurcated Mortgage Loans

Borrower

Person who is the obligor per the Note.

Synonyms

- Borrowers
- Borrower's

C

Control

Possessing, directly or indirectly, the power to direct or cause the management and operations of an entity (e.g., through the ownership of voting securities or other ownership interests, or by contract).

Synonyms

- Controlling
- Controlled
- Controls

F

Foreclosure Event

Any of the following:

- Foreclosure per the Security Instrument;
- Fannie Mae's exercise of rights and remedies per the Security Instrument or applicable law (including Insolvency Laws) as holder of the Mortgage Loan and/or the Security Instrument, where Fannie Mae (or its designee or nominee), or a third-party purchaser, becomes the Property owner;
- Borrower delivers Fannie Mae (or its designee or nominee) a deed or other conveyance of the Property in lieu of any of the foregoing; or
- in Louisiana, any dation en paiement.



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

Forward Commitment

Commitment to purchase a permanent Mortgage Loan for a to-be constructed or rehabilitated Property.

Synonyms

- Forward Commitment's
- Forward Commitments

H

HAP

HUD project-based Section 8 rental subsidy in the form of a Housing Assistance Payment contract.

Synonyms

- Housing Assistance Payment

L

Lender

Person Fannie Mae approved to sell or service Mortgage Loans.

Synonyms

- Lenders
- Lender's

Lien

Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind.

Synonyms

- Liens

M



Maturity Date Date all Mortgage Loan amounts become fully due and payable per the Loan Documents.

Synonyms

- Maturity Dates

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

Mortgage Loan Origination Date Date you fund a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date

P

PILOT Payment In Lieu Of Taxes.

Synonyms

- PILOTs

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

R



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

Security Instrument

Instrument creating a lien or encumbrance on 1 or more Properties and securing the Loan Document obligations.

Synonyms

- Security Instruments
- Security Instrument's

T

Transfer/Assumption

Transaction changing the ownership of the Borrower or Property.

Synonyms

- Transfers/Assumptions

U

Underwritten Net Cash Flow

Net Cash Flow 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 NCF



UPB

Unpaid Principal Balance

Synonyms

- UPBs