



# Multifamily Selling and Servicing Guide

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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
<b>CALCULATION OF NET RENTAL INCOME</b>		
1		<p>GROSS RENTAL INCOME the least of:</p> <ul style="list-style-type: none"> <li>• 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 allowances;</li> <li>• rents permitted under any restrictive covenants, subordinate financing requirements, or an Affordable Regulatory Agreement recorded on the Property; or</li> <li>• actual rents in place for occupied units, plus the lesser of               <ul style="list-style-type: none"> <li>- market rents, or</li> <li>- permitted rents, described above for vacant units based on a current rent roll (multiplied by 12).</li> </ul> </li> </ul> <p>You must include incremental HAP contract income as described in <a href="#">Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 707.01: Properties with Both HAP Contracts and LIHTC Units</a>.</p>



REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
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)
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). <sup>1</sup>
4	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.). <sup>1</sup>
5	MINUS	Bad debt the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt. <sup>1</sup>
	EQUALS	NET RENTAL INCOME (NRI) <sup>2</sup>



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

Item	Function	Description
1		<p>The total of Items 3, 4, and 5 must equal the greater of</p> <ul style="list-style-type: none"> <li>• the difference between the trailing 3-month net rental collections (annualized) and GPR, or</li> <li>• either               <ul style="list-style-type: none"> <li>- 5% of GPR, or</li> <li>- 3% of GPR if:                   <ul style="list-style-type: none"> <li>▪ the Property is located in a Strong Market perForm 4660;</li> <li>▪ the Property has a HAP contract that will expire after the Maturity Date; and</li> <li>▪ 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.</li> </ul> </li> </ul> </li> </ul>
2		<p>You must assess whether there was any decline in NRI per <a href="#">Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis</a>.</p>

**CALCULATION OF OTHER INCOME<sup>3</sup>**

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"> <li>• be stable;</li> <li>• be common in the market;</li> <li>• exclude one-time extraordinary non-recurring items; and</li> <li>• be supported by prior years.</li> </ul> <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> <p>If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), as long as it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.</p>
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REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
3 If premiums or corporate premiums are applicable for a particular MAH Property, inclusion of premium income is permitted consistent with <a href="#">Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis</a> .		
CALCULATION OF COMMERCIAL INCOME		
7	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
8	MINUS	10% of the actual commercial income. <sup>4</sup>
4 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
9	PLUS	Laundry and vending, parking, and all other income per <a href="#">Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis</a> .
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		



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

Item	Function	Description
10	MINUS	<p>Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by lease-ups, 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"> <li>• the past operating history;</li> <li>• the appraisers expense analysis;</li> <li>• all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and</li> <li>• the Borrowers budget (in the case of an acquisition).</li> </ul> <p>You must analyze historical operations at the Property and apply an appropriate increase over the prior years operations in determining an estimate.</p>
11	MINUS	<p>Property management fee equal to the greatest of:</p> <ul style="list-style-type: none"> <li>• 4% of EGI<sup>5</sup>;</li> <li>• actual property management fee (exclude any portion of a non-arms-length property management fee that is subordinated to the Mortgage Loan); or</li> <li>• market property management fee.</li> </ul>
<p>5 Minimum management fee may be 3.5% of EGI (rather than 4% of EGI) provided that the:</p> <ul style="list-style-type: none"> <li>• underwritten management fee is at least \$300 per unit;</li> <li>• actual management fee is equal to or less than the underwritten management fee; and</li> <li>• market management fees support the underwritten management fee for similarly sized properties.</li> </ul>		



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

Item	Function	Description
12	MINUS	<p>Real estate taxes based on the greatest of:</p> <ul style="list-style-type: none"><li>• actual future tax bill(s) covering a full calendar year;</li><li>• prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses);</li></ul> <p>or</p> <ul style="list-style-type: none"><li>• in California, the greater of the Mortgage Loan amount or the assessed value, multiplied by the millage rate, plus any special assessments.</li></ul> <p>You must consider any automatic reassessment upon acquisition in the next 12-month period.</p>





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

Item	Function	Description
<p>12</p> <p>continued</p>	<p>MINUS</p>	<p>If the Property has real estate tax abatements, exemptions, or deferrals, they must:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit as long as the rent, income, or other restrictions are maintained (i.e., it is tied to the Property and not the owner); and</li> <li>• if governed under the California Welfare Tax Exemption Program, meet the following: <ul style="list-style-type: none"> <li>- if a refinance, the Borrower must be in and remain in compliance with the California Welfare Tax Exemption program; or</li> <li>- 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"> <li>▪ 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;</li> <li>▪ ensure that the Borrower has demonstrated experience with the California Welfare Tax Abatement Program; and</li> <li>▪ ensure that the Borrower is and remains eligible for the California Welfare Tax Abatement Program.</li> </ul> </li> </ul> </li> </ul>



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

Item	Function	Description
12  continued	MINUS	<p>If the Property benefits from real estate tax abatements, exemptions, or deferrals 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"> <li>• 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;</li> <li>• the rent or income restrictions at the Property are maintained; and</li> <li>• you have ensured that: <ul style="list-style-type: none"> <li>- 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, or deferral; and</li> <li>- the original or alternative tax abatement, exemption, or deferral has <ul style="list-style-type: none"> <li>▪ been established in the states statutes,</li> <li>▪ been in effect for at least 10 years, and</li> <li>▪ 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, or deferral.</li> </ul> </li> </ul> </li> </ul>



REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
12  continued	MINUS	<p>If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider</p> <ul style="list-style-type: none"> <li>• a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument),</li> <li>• an amortization schedule that accommodates the elimination of the abatement, or</li> <li>• providing clear justification and support in the refinance analysis.</li> </ul>
13	MINUS	<p>Insurance equal to:</p> <ul style="list-style-type: none"> <li>• the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or</li> <li>• 110% of the current expense, for insurance policies with a remaining term of less than 6 months.</li> </ul>
14	MINUS	<p>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 <a href="#">Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis</a>.</p>
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
15	MINUS	<p>Replacement Reserve expense per <a href="#">Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF)</a>.</p>
	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

#### 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).

### 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 under 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 under the Security Instrument;
- any other exercise by the Lender of rights and remedies (whether under the Security Instrument or under applicable law, including Insolvency Laws) as holder of the Mortgage Loan and/or the Security Instrument, as a result of which the Lender (or its designee or nominee) or a third-party purchaser becomes owner of the Property;
- delivery by the Borrower to the Lender (or its designee or nominee) of a deed or other conveyance of the Borrower's interest in the Property in lieu of any of the foregoing; or
- in Louisiana, any dation en paiement.

**Forward Commitment** Commitment to purchase a permanent Mortgage Loan for a to-be constructed or rehabilitated Property per Part XV of the DUS Guide, subject to certain conditions.

**Synonyms**

- Forward Commitments



## L

**Lender** Person approved by Fannie Mae 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 amounts due and owing under the Mortgage Loan 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

## 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**

### Security Instrument

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

## **T**

### Transfer/Assumption

Transaction resulting in a change in 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 202: Income Analysis and the applicable products and features in Part III.

**Synonyms**

- Underwritten NCF