



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## Chapter 8 Cooperative Properties

### Section 801 Description

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#### Requirements

A Cooperative Property is a multifamily residential property owned by a Cooperative Organization.

### Section 802 Eligible Mortgage Loans

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#### Requirements

Fannie Mae will only purchase a Cooperative Mortgage Loan if each shareholder or other equity owner in the Cooperative Organization is granted the right to occupy a unit in the Property under a proprietary lease or other occupancy agreement.

You must:

- Examine the organizational documents of the Cooperative Organization.
- Ensure that the terms of these documents allow you to originate a Loan secured by the Property in compliance with the Guide.
- Review the composition and experience of the Cooperative Organization's Board of Directors or managers.

#### 802.01 Basic Conditions

#### Requirements

You must ensure for all the following:

- The Mortgage Loan has a fixed rate.
- Any commercial lease is determined to be a Material Commercial Lease based on 5% or more of total gross income calculated on a Cooperative Market Rental Basis.
- The Property is located in a Cooperative Property Eligible Market per Form 4660.
- The Property has an overall condition of 2 or better, as shown on the Comprehensive Assessment Addendum tab of the MBA Standard Inspection Form.



## 802.02 Financial Conditions

### Requirements

You must ensure all of the following:

- You have reviewed at least 3 years of the Property's financial operations.
- The Property's financial operations achieved at least a 0.90 DSCR on an Actual Cooperative Property Basis for 2 of the previous 3 years.
- The Board of Directors or managers of the Cooperative Organization approve any increase in the Cooperative Maintenance Fee prior to closing; and any scheduled annual increase cannot exceed 10%.
- A Cooperative Property Sponsor may not own interests to occupy or lease more than 40% of the units in the Cooperative Property, unless the following criteria are met:
  - You deem the financial strength, experience, qualifications, and credit history of the Cooperative Property Sponsor acceptable, per the applicable provisions for Key Principals in [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals](#) or [Part III, Chapter 9: Small Mortgage Loans](#).
  - The Cooperative Organization consistently demonstrates sound financial operations and market acceptability.
  - There is no ongoing litigation between the Cooperative Organization and the Cooperative Property Sponsor.
  - The aggregate annual rental income from the Cooperative Property Sponsor-owned units is greater than the aggregate annual Cooperative Maintenance Fees on those units.

## 802.03 Property Management Conditions

### Requirements

You must ensure all of the following:

- Except for Small Mortgage Loans, the Property must be managed by a professional property management firm that currently manages:
  - at least 3 other Cooperative Properties in the same market as the Property;
  - a minimum of 350 Cooperative Property units in the aggregate; and
  - another Cooperative Property of similar size to the Property.
- For Small Mortgage Loans, a Property with more than 25 units must be



managed by a property management firm with at least 3 years of experience managing a Cooperative Property of similar size.

### ➔ Guidance

The Borrower may manage a Property securing a Small Mortgage Loan with 25 units or less.

## 802.04 Other Considerations

### ➔ Guidance

A Cooperative Mortgage Loan does not have to comply with the following:

- identification of a Key Principal or Principal and the applicable related analysis and obligations per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals](#), or [Part III, Chapter 9: Small Mortgage Loans](#);
- Ground Lease Rents per [Part II, Chapter 1: Attributes and Characteristics, Section 104.02: Ground Lease Rents](#)
- Minimum Occupancy per [Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy](#);
- Occupancy per [Part III, Chapter 9: Small Mortgage Loans, Section 903: Occupancy](#); and
- Property Management per [Part III, Chapter 9: Small Mortgage Loans, Section 906: Property Management](#).

## Section 803 Underwriting

### 803.01 Financial Operation

#### ☑ Requirements

As part of your underwriting analysis, you must:

- Examine the year-to-date operational budget.
- Collect, review, and analyze audited financial/operating statements for the last 3 years of operations.
- Ensure that the average Cooperative Maintenance Fee Accounts Receivable for the last 3 years is less than 3% of the annual Cooperative Maintenance Fees.
- Ensure that the Cooperative Operating Reserve at closing is at least 10%



of the annual Cooperative Maintenance Fees.

### 803.02 Property Valuation

#### Requirements

You must obtain an Appraisal per [Part II, Chapter 2: Valuation and Income](#) that provides a value of the Cooperative Property on a Cooperative Market Rental Basis for determining the LTV Ratio per Form 4660.

#### Guidance

You may obtain an Appraisal per [Part II, Chapter 2: Valuation and Income](#) that provides a value of the Cooperative Property on a Cooperative Gross Sellout Value basis.

### 803.03 Subordinate Debt

#### Requirements

You must ensure that any existing debt secured by a Lien on a Cooperative Property complies with [Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402: Supplemental Mortgage Loans](#). You must also calculate the

- Underwritten DSCR per [Part III, Chapter 8: Cooperative Properties, Section 804.02: Cooperative Market Rental Basis DSCR \(Underwritten DSCR\)](#), and
- Actual Cooperative DSCR per [Part III, Chapter 8: Cooperative Properties, Section 804.04: Actual Cooperative Property DSCR](#).

## Section 804 Income Analysis

### 804.01 Cooperative Market Rental Basis NCF (Underwritten NCF)

#### Requirements

You must review the projected operations of the Cooperative Property on a Cooperative Market Rental Basis (as reflected in the Appraisal).

You must ensure the Cooperative Market Rental Basis NCF includes the minimum economic vacancy and Replacement Reserve expense per the applicable Underwritten NCF calculation in [Part II, Chapter 2: Valuation and Income](#) or [Part III, Chapter 9: Small Mortgage Loans](#).



**804.02** Cooperative Market Rental Basis DSCR (Underwritten DSCR)

Requirements

You must calculate Underwritten DSCR per the following table.

<b>UNDERWRITTEN DSCR (COOPERATIVE PROPERTIES – COOPERATIVE MARKET RENTAL BASIS)</b>		
Item	Function	Description
1		Underwritten NCF as calculated on a Cooperative Market Rental Basis.
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"> <li>• the actual note rate, or</li> <li>• the required Underwriting Interest Rate Floor per Form 4660 .</li> </ul> <p>If the Property has subordinate debt, the debt service must include P&amp;I to cover the maximum principal amount of the outstanding subordinate debt.</p>

**804.03** Actual Cooperative Property NCF

Requirements

You must use the following table to calculate Actual Cooperative Property NCF.

<b>REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW</b>		
Item	Function	Description
<b>CALCULATION OF NET RENTAL INCOME</b>		
1		GROSS RENTAL INCOME current scheduled monthly Cooperative Maintenance Fees for all units (multiplied by 12).



REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
2	PLUS	Income from Cooperative Organization-owned units equal to the lesser of <ul style="list-style-type: none"> <li>• actual rents in place for occupied units, plus market rents for vacant units, or</li> <li>• an equivalent Cooperative Maintenance Fee based on similar units in the Property (multiplied by 12).</li> </ul>
3	PLUS	Proposed increase in annual Cooperative Maintenance Fee income.
	EQUALS	GROSS POTENTIAL RENT (GPR)
4	MINUS	Vacancy included at Fannie Mae's sole discretion for any Pre-Review Mortgage Loan.
	EQUALS	NET RENTAL INCOME (NRI)
CALCULATION OF OTHER INCOME		
5	PLUS	Actual other income (including any flip fees, sales fees, or any special assessments collected for operational expenses) as described in the applicable Underwritten NCF calculation detailed in <a href="#">Part II, Chapter 2: Valuation and Income</a> , or <a href="#">Part III, Chapter 9: Small Mortgage Loans</a> .
CALCULATION OF COMMERCIAL INCOME		
6	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
7	PLUS	Actual income from STR units.
8	MINUS	Commercial income economic vacancy included at Fannie Mae's sole discretion for any Pre-Review Mortgage Loan. A 10% vacancy rate must be applied to any STR income. <sup>1</sup>
1 If net commercial income is greater than 20% of EGI on a Cooperative Market Rental Basis, then reduce to 20% of EGI on a Cooperative Market Rental Basis.		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		





REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
9	MINUS	<p>Line-by-line stabilized operating expenses, including management fee and insurance. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by short-term positive or negative factors. Non-recurring, extraordinary expenses must not be included.</p> <p>You must assess:</p> <ul style="list-style-type: none"><li>• past operating history;</li><li>• market expenses;</li><li>• actual service contracts in place; and</li><li>• the Property's budget.</li></ul> <p>All expenses associated with STR should be underwritten in their respective expense line items.</p>



REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
10	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 year's taxes multiplied by 103%; or</li> <li>• in California, the greater of the assessed value or the Mortgage Loan amount, multiplied by the millage rate, plus any special assessments.</li> </ul> <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, per written documentation from the state or local tax assessor; and</li> <li>• survive a foreclosure of the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit (e.g., it is tied to the operation of the Property and not the identity or structure of the owner).</li> </ul> <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>



REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
11	MINUS	<p>All other expenses as described in Underwritten NCF calculation detailed in the applicable <a href="#">Part II, Chapter 2: Valuation and Income</a>, or <a href="#">Part III, Chapter 9: Small Mortgage Loans</a>, except for property insurance and management fees.</p> <p>For STR:</p> <ul style="list-style-type: none"> <li>• any taxes or fees imposed by the local jurisdiction; and</li> <li>• if applicable, the difference in actual lease STR income and the Cooperative Maintenance Fee for similar units in the Property with a term of more than 30 days.</li> </ul> <p>For example, if actual lease STR income for a unit is \$1,000 and the comparable Cooperative Maintenance Fee for that unit is \$900, then deduct \$1,200 (<math>\\$1,000 - \\$900 = \\$100 \times 12</math> months) as an other expense.</p>
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
12	MINUS	Replacement Reserve expense included at Fannie Mae's sole discretion for any Pre-Review Mortgage Loan.
	EQUALS	ACTUAL COOPERATIVE PROPERTY NET CASH FLOW (ACTUAL COOPERATIVE NCF)

#### 804.04 Actual Cooperative Property DSCR

##### Requirements

You must calculate the Actual Cooperative Property DSCR per the following table.



ACTUAL COOPERATIVE PROPERTY DSCR		
Item	Function	Description
1		Actual Cooperative NCF per Part III, Chapter 8: Cooperative Properties, Section 804.03: Actual Cooperative Property 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 at the actual note rate, including amortization.</p> <p>Use interest-only payments only for a full-term interest-only Mortgage Loan.</p> <p>If the Property has subordinate debt, the debt service must include P&amp;I to cover the actual UPBof the outstanding subordinate debt. Use interest-only payments only for full-term interest-only subordinate debt.</p>

## Section 805

### Limited Equity Cooperative Properties

#### Requirements

In addition to the rest of this Chapter, you must ensure that Limited Equity Cooperative Properties meet the following:

- Cooperative Maintenance Fees: You must ensure that:
  - monthly Cooperative Maintenance Fees are not more than 90% of comparable unit market rents; and
  - if there are restrictions from the HUD or others, then both HUD and the Limited Equity Cooperative Property's Board of Directors or managers must approve all Cooperative Maintenance Fee increases before the Commitment Date.
- Cooperative Operating Reserve: You must require a reserve equal to at least 6 months of P&I payments on the Mortgage Loan.
- HUD IRP Loan: You must require an IRP reserve equal to 2 months of IRP payments for the life of the IRP Loan. The funds in the IRP reserve may only be used to compensate for late IRP payments.



- Actual Cooperative Property NCF: You must calculate Actual Cooperative Property NCF per [Part III, Chapter 8: Cooperative Properties, Section 804.03: Actual Cooperative Property NCF](#), but the following exceptions apply:
  - Economic vacancy: Use the greater of
    - 5%, or
    - the highest level experienced by the Property during the last 3 years.
  - Actual operating expenses: Equal to 103% of the previous year's operating expenses.
  - Replacement Reserve: Use the greater of
    - the scheduled Replacement Reserve per unit as determined by a PCA, or
    - \$250 per unit per year.
- Unit Turnover: Total unit turnover must not be greater than 20%.
- Escrows: You must require monthly deposits for real estate taxes, insurance, and the Replacement Reserve.
- Cooperative Property Sponsor: There must be no Sponsor-owned units.
- Property management experience: The Property management firm must have Limited Equity Cooperative Property management experience. If HUD restrictions are in-place, the firm must also have a history of successfully complying with HUD restrictions and reporting requirements.

## ➔ Guidance

You should consider the following:

- Cooperative Operating Reserve: You may include a similar reserve held by another independent lender if the funds are released to you.
- Actual Cooperative Property NCF: 3% trending is not required for trailing 12-month or year-to-date annualized operating expenses.
- Unit Turnover: Unit turnover occurs when a shareholder or tenant chooses to vacate a unit or terminate a lease during the past 3 years.



# Glossary

## A

Actual Cooperative Property Basis

Financial analysis or valuation of a Cooperative Property conducted based on its actual operating performance.

Appraisal

Written statement independently and impartially prepared by a qualified Appraiser stating an opinion of the Property's market value

- as of a specific date, and
- supported by the presentation and analysis of relevant market information.

### **Synonyms**

- Appraisals
- Appraisal's

## 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

Commitment Date

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



Cooperative Gross Sellout Value	Value based upon the sum of the gross sales prices of all units (subject to discounts on rent restricted units) plus the aggregate UPB of all existing Mortgage Loans (prior to any proposed refinancing) secured by a Lien on the Cooperative Property.
Cooperative Maintenance Fee	Periodic fee assessed each shareholder or owner of a Cooperative Organization to fund costs and expenses associated with ongoing operations of the Cooperative Property.  <b>Synonyms</b> <ul style="list-style-type: none"><li>• Cooperative Maintenance Fees</li></ul>
Cooperative Maintenance Fee Accounts Receivable	Cooperative Maintenance Fees due the Cooperative Organization that are more than 30 days past due.
Cooperative Market Rental Basis	Financial analysis or valuation of a Cooperative Property conducted as if it were operated as a conventional multifamily property subject to applicable rental restrictions.
Cooperative Operating Reserve	Liquid funds, including loan proceeds, controlled by the Cooperative Organization to cover operating and capital expenses, and comprised of unrestricted cash, less the sum of accounts payable.
Cooperative Organization	Corporation or legal entity where each shareholder or equity owner is granted the right to occupy a unit in a multifamily residential property under a proprietary lease or occupancy agreement.



Cooperative Property Multifamily residential property owned by a Cooperative Organization.

**Synonyms**

- Co-op
- Cooperative

Cooperative Property Sponsor Person who invested in, converted, or is converting a residential rental apartment building to a Cooperative Property and continues to own unsold shares in the Cooperative Organization.

**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**

Ground Lease Contract for the rental of land, usually on a long term basis.

Guarantor Key Principal or other Person executing a

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

**Synonyms**

- Guarantors





Guide Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise.

**Synonyms**

- DUS Guide

## H

HUD U.S. Department of Housing and Urban Development

**Synonyms**

- HUD's

## I

IRP Interest Reduction Payment

**Synonyms**

- Interest Reduction Payment

## 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

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

**Synonyms**

- Liens



Limited Equity  
Cooperative Property

Cooperative Organization that has income, rent, or equity build-up restriction (not including any transfer taxes), which may be dictated by a governmental entity, a third-party capital provider, or its own organizational documents.

**Synonyms**

- Limited Equity Cooperative Properties

**M**

Material Commercial  
Lease

Lease, sublease, license, concession, grant, or other possessory interest

- for commercial purposes comprising 5% or more of the Property's annual EGI, or
- relating to:
  - solar power, thermal power generation, or co-power generation, or the installation of solar panels or any other electrical power generation equipment, and any related power purchase agreement; or
  - any Property dwelling units leased to
    - a Borrower Affiliate,
    - any Key Principal, or
    - any Principal.

**Synonyms**

- Material Commercial Leases

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

## P

**P&I** Principal and interest

**Pre-Review Mortgage Loan** Mortgage Loan that is not delegated to you and requires Fannie Mae's approval before Rate Lock.

**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

## R



## Replacement Reserve

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

### **Synonyms**

- Replacement Reserves

## **S**

## 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

## Small Mortgage Loan

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

### **Synonyms**

- Small Mortgage Loans

## Sponsor

Principal equity owner and/or primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).

### **Synonyms**

- Sponsors
- Sponsor's