Fannie Mae®

# Multifamily Selling and Servicing Guide

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## Section 802 Eligible Mortgage Loans

### 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 Organizations Board of Directors or managers.

## 802.01 Basic Conditions

### Requirements

You must ensure 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 a Property Condition Rating of 2 or better, per 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 Propertys financial operations.
- The Propertys 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 property management company 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 company 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 106.02: Ground Lease Rents
- Minimum Occupancy per Part II, Chapter 1: Attributes and Characteristics, Section 107: 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.

# Glossary

## A

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

## B

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| Borrower | Person who is the obligor per the Note.<br><br>**Synonyms**<br>• Borrowers<br>• Borrower's |

## C

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| 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.<br><br>**Synonyms**<br>• Cooperative Maintenance Fees |
| 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 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. |

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| Cooperative Property | Multifamily residential property owned by a Cooperative Organization.<br><br>**Synonyms**<br>• Co-op<br>• 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. |

# D

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| 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.<br><br>**Synonyms**<br>• DSCR |

# F

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| 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.<br><br>**Synonyms**<br>• Multifamily Underwriting Standards |

# G

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



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| Guarantor | Key Principal or other Person executing a<br>• Payment Guaranty,<br>• Non-Recourse Guaranty, or<br>• any other Mortgage Loan guaranty.<br><br>**Synonyms**<br>• Guarantors |
| Guide | Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise.<br><br>**Synonyms**<br>• DUS Guide |

## K

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| Key Principal | Person who<br>• controls and/or manages the Borrower or the Property,<br>• is critical to the successful operation and management of the Borrower and the Property, and/or<br>• may be required to provide a Guaranty.<br><br>**Synonyms**<br>• Key Principals<br>• Key Principal's |

## L

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| 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.<br><br>**Synonyms**<br>• Leases |

## M

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| Material Commercial Lease | Lease, sublease, license, concession, grant, or other possessory interest<br>• for commercial purposes comprising 5% or more of the Property's annual EGI, or<br>• relating to:<br>- 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<br>- any Property dwelling units leased to<br>▪ a Borrower Affiliate,<br>▪ any Key Principal, or<br>▪ any Principal.<br><br>**Synonyms**<br>• Material Commercial Leases |
| MBA | Mortgage Bankers Association<br><br>**Synonyms**<br>• MBA's |
| Mortgage Loan | Mortgage debt obligation evidenced, or when made will be evidenced, by<br>• the Loan Documents, or<br>• a mortgage debt obligation with a Fannie Mae credit enhancement.<br><br>**Synonyms**<br>• Mortgage Loans<br>• Mortgage Loan's |

# P

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| 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.<br><br>**Synonyms**<br>• Principals |
| Property | Multifamily residential real estate securing the Mortgage Loan, including the<br>• fee simple or Leasehold interest,<br>• Improvements, and<br>• personal property (per the Uniform Commercial Code).<br><br>**Synonyms**<br>• Properties<br>• 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).<br><br>**Synonyms**<br>• Property Condition Ratings |

# S

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| Small Mortgage Loan | Mortgage Loan with an original loan amount less than or equal to $9 million.<br><br>**Synonyms**<br>• Small Mortgage Loans |

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| Sponsor | Principal equity owner and/or primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).<br><br>**Synonyms**<br>• Sponsors<br>• Sponsor's |