



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 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 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 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 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 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](#).



## Glossary

### A

Actual Cooperative  
Property Basis

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

### B

Borrower

Person who is the obligor per the Note.

#### **Synonyms**

- Borrowers
- Borrower's

### C

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.

#### **Synonyms**

- 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.



## 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

## 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

## 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

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](#).

**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



## Property Condition Rating

An assessment of the Property's 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).

### **Synonyms**

- Property Condition Ratings

## **S**

## Small Mortgage Loan

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

### **Synonyms**

- Small Mortgage Loans