



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 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.

UNDERWRITTEN DSCR (COOPERATIVE PROPERTIES – COOPERATIVE MARKET RENTAL BASIS)		
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).
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)
<b>CALCULATION OF OTHER INCOME</b>		
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> .
<b>CALCULATION OF COMMERCIAL INCOME</b>		
6	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).



REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
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>
<p>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.</p>		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		
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>



## Glossary

### A

**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

### 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

**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

**L**

Lien

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

**Synonyms**

- Liens

**M**



## 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.

### 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