Fannie Mae®

Multifamily Selling and Servicing Guide

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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 Propertys 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 company 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

C

Commitment	Contractual agreement between you and Fannie Mae where Fannie Mae agrees to buy a Mortgage Loan at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and you agree to Deliver that Mortgage Loan. **Synonyms** • Committed • Commitments
Commitment Date	Date a Commitment is confirmed by Fannie Mae per Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments.
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 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 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.

H

HUD	U.S. Department of Housing and Urban Development **Synonyms** • HUD's

I

IRP	Interest Reduction Payment **Synonyms** • Interest Reduction Payment

L

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. **Synonyms** • Leases
Lender	Person Fannie Mae approved to sell or service Mortgage Loans. **Synonyms** • Lenders • Lender's

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

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

N

Net Cash Flow	At underwriting or for any specified period, the amount calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • NCF

P

P&I	Principal and interest

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 Assessment	Assessment of the Property's physical condition and historical operation. **Synonyms** • PCA • PNA • Physical Needs Assessment • PCAs

R

Replacement Reserve	Custodial Account the Borrower funds during the Mortgage Loan term for Replacements. **Synonyms** • Replacement Reserves
Replacements	Capital item replacements and major maintenance needs identified by the Property Condition Assessment or otherwise required. **Synonyms** • Replacement

S

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