



Multifamily Selling and Servicing Guide

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Section 202 Income Analysis

202.01 Underwritten Net Cash Flow (Underwritten NCF)

➔ Guidance

Underwritten NCF may differ significantly across assets and will be driven by circumstances particular to the Property. Therefore, when calculating the Underwritten NCF, you should:

- Use both objective and subjective measures to determine the revenue generated and the expenses incurred at the Property.
- Use the best information available, including historical Property performance and anticipated Property operations.
- Use your best efforts to obtain operating statements for the previous 3 years.
- Obtain the prior full-year operating statement or, at a minimum, an operating statement covering the trailing 6 months (annualized).
- Consider whether the Property can achieve the Underwritten NCF within 12 months after the Mortgage Loan Origination Date, absent unexpected market conditions or other unforeseen events.

You may:

- Rely, for acquisitions only, on the Borrower's budgeted operating statements.
- Calculate the Underwritten NCF more conservatively, if warranted by circumstances particular to the Property.

☑ Requirements

You must use the following table to calculate Underwritten NCF for all Mortgage Loans unless another table is provided in the applicable Part III chapter based on the specific product.

REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		



**REQUIRED UNDERWRITTEN NCF
(CONVENTIONAL LOANS)**

Item	Function	Description
1		<p>GROSS RENTAL INCOME actual rents in place for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12). The Property must have Stabilized Residential Occupancy by Qualified Tenants.</p> <p>If the Property is located in New York City and subject to the J-51 Tax Incentive Program where the Borrower has decontrolled rent-stabilized units (a Decontrol Event), you must adjust the current rents to reflect no rent decontrol benefits:</p> <ul style="list-style-type: none"> • Calculate the base rent as the rent amount per unit prior to the Decontrol Event date. • Use the base rent for each applicable unit to determine the Gross Rental Income. • Increase the base rent by the appropriate percentage allowed under New York City Rent Stabilization laws per annum through the present rent roll date.
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category).
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Premiums (e.g., identifiable additional income from furnished units or short term leases) and/or corporate premiums (e.g., identifiable additional income from corporate units, housekeeping services, etc.).
4	MINUS	Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12). ¹



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
5	MINUS	Concessions - the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc. ¹
6	MINUS	Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other Income for bad debt. ¹
	EQUALS	NET RENTAL INCOME (NRI) ²
<p>1 The total of Items 4, 5, and 6 must equal the greater of</p> <ul style="list-style-type: none"> • the difference between the trailing 3-month net rental collections (annualized) and GPR, or • 5% of GPR. <p>2 NRI must reflect projected operations for the underwriting period.</p> <p>a. You must assess the NRI using these parameters and fully support any changes:</p> <ul style="list-style-type: none"> • Assess the individual month NRI within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). • If there are fluctuations, you may use an NRI that exceeds the trailing 3-month NRI, as long as the NRI does not exceed the highest 1-month NRI used in the trailing 3-month NRI calculation. <p>b. You must assess declines in NRI using these parameters:</p> <ul style="list-style-type: none"> • Assess whether there was any decline in NRI for the trailing 3-month period compared to the trailing 6-month period and the trailing 12-month period. • If the decline in NRI for the trailing 3-month period is greater than 2% compared to either the trailing 6-month period or the trailing 12-month period, you must adjust downward the NRI to an amount that is 2% less than the lowest NRI for the trailing 1-month, 3-month, 6-month, or 12-month period. • You must make a minimum 2% adjustment to NRI; however, you are expected to make additional downward adjustments as appropriate to reflect current market conditions not reflected in historical operations. 		



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
CALCULATION OF OTHER INCOME		
7	PLUS	<p>Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:</p> <ul style="list-style-type: none"> • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. <p>You must assess the individual month other income within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized).</p> <p>If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), as long as it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.</p> <p>When determining the other income, you must</p> <ul style="list-style-type: none"> • adjust Items 8 through 12, and • include specific income for Items 13 through 15 when applicable.
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
9	PLUS	Actual income from STR units.
10	MINUS	10% of the actual commercial income (total of Items 8 plus 9). ³



**REQUIRED UNDERWRITTEN NCF
(CONVENTIONAL LOANS)**

Item	Function	Description
3 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
11	PLUS	Premiums, provided that the income must: <ul style="list-style-type: none"> • be stable or increasing; • be typical (in type and amount) in the market; • be supported by prior years; and • not exceed the income generated over the most recent year or trailing 12-month period.
12	PLUS	Corporate premiums, provided that this income must: <ul style="list-style-type: none"> • not be included for more than 10% of the Property's units; • be stable or increasing; • be typical (in type and amount) in the market; • be supported by prior years; and • not exceed the income generated over the most recent year or trailing 12-month period.
13	PLUS	Laundry and vending.
14	PLUS	Parking - income from residential parking/garage spaces.



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
15	PLUS	<p>All other income, include the following:</p> <ul style="list-style-type: none"> • application fees; • cable; • club house rental; • fees charged tenants for returned checks due to insufficient funds (NSF); • forfeited security deposits; • late fees; • miscellaneous; • non-refundable fees; • pet fees; • reimbursements; • storage; • temporary tenants; • utility; and • other. <p>The following must not be included:</p> <ul style="list-style-type: none"> • corporate tax and refunds; • delinquency; • Financial Accounting Standards Board 13 straight-line lease income; • gain on sale; • insurance proceeds; • interest income; • interest on security deposits; • mobile home sales; • partnership funds received; • sales tax collected; • security deposits collected; • security deposits returned; • straight-line lease income; and • tax reimbursement from real estate taxes.
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		



**REQUIRED UNDERWRITTEN NCF
(CONVENTIONAL LOANS)**

Item	Function	Description
16	MINUS	<p>Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other 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"> • past operating history; • the appraisers expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrowers budget (in the case of an acquisition). <p>You must analyze historical operations at the Property and apply an appropriate increase over the prior years operations in determining an estimate.</p> <p>All expenses associated with STR must be underwritten in their respective expense line items. These expenses include cleaning, furnishing, and repairs.</p>
16(a)	MINUS	<p>Property management fee equal to the greatest of:</p> <ul style="list-style-type: none"> • 3% of EGI⁴; • actual property management fee (exclude any portion of a non-arms length property management fee that is subordinated to the Mortgage Loan); or • market property management fee.



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
		<p>4 Minimum property management fee may be 2.5% of EGI (rather than 3% of EGI) provided that the:</p> <ul style="list-style-type: none"> • underwritten management fee is at least \$300 per unit; • actual management fee is equal to or less than the underwritten management fee; • Mortgage Loan has an original principal amount greater than \$3 million; and • market management fees support the underwritten management fee for similarly sized properties.
16(b)	MINUS	<p>Real estate taxes based on the greatest of:</p> <ul style="list-style-type: none"> • actual future tax bill(s) covering a full calendar year; • prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or • in California, the greater of <ul style="list-style-type: none"> - the Mortgage Loan amount, or - the assessed value, - multiplied by the millage rate plus any special assessments. <p>You must consider any automatic tax reassessment upon acquisition in the next 12-month period.</p> <p>If the Property has real estate tax abatements, exemptions, or deferrals, they must:</p> <ul style="list-style-type: none"> • be in effect at closing, per written documentation from the state or local tax assessor; and • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit (i.e., it is tied to the Property and not the owner).



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
16 (b) continued	MINUS	<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"> • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument), • an amortization schedule that accommodates the elimination of the abatement, or • providing clear justification and support in the refinance analysis.
16(c)	MINUS	<p>Insurance equal to:</p> <ul style="list-style-type: none"> • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or • 110% of the current expense, for insurance policies with a remaining term less than 6 months.
16(d)	MINUS	<p>Utilities, including the following:</p> <ul style="list-style-type: none"> • building lights; • dumpster rental; • electricity; • fuel oil; • heat; • natural gas; • non-common area electric; • parking lot electric; • parking lot lights; • septic; • trash removal (including contract); • utilities; • vacant unit utilities; and • other.
16(e)	MINUS	Water and sewer.



**REQUIRED UNDERWRITTEN NCF
(CONVENTIONAL LOANS)**

Item	Function	Description
16(f)	MINUS	Repairs and maintenance, including the following: <ul style="list-style-type: none">• appliances;• building;• carpet;• cleaning;• common area maintenance;• decorating;• electrical;• elevator;• equipment repairs;• exterminating services;• floor covering replacement;• HVAC;• janitorial;• landscaping (exterior);• landscaping (interior/plants);• lawn and grounds;• lock/keys;• maid service;• make ready;• mechanical;• painting;• parking lot;• parking lot lighting repair;• pest control;• plumbing;• pool;• rubbish removal;• scavenger;• snow removal;• supplies;• supplies (cleaning);• turnover;• vacancy preparation;• water irrigation;• water treatment;• window covering repair/replacement (minor); and• other.



**REQUIRED UNDERWRITTEN NCF
(CONVENTIONAL LOANS)**

Item	Function	Description
16(g)	MINUS	Payroll and benefits, including the following: <ul style="list-style-type: none">• 401k;• bonuses;• contract labor (carpet cleaning);• contract labor (make ready);• contract work;• custodian salary;• employee benefits;• employee expense;• employee insurance;• FICA;• health benefits;• labor plumbing;• manager salaries;• payroll and benefits;• payroll and processing;• payroll taxes;• salaries;• salaries maintenance;• security personnels salary;• subcontracted labor;• temporary help;• unemployment insurance;• workers compensation; and• other.



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
16(h)	MINUS	Advertising and marketing, including the following: <ul style="list-style-type: none">• apartment finder/guide;• banners;• brochures;• building signage;• finders fee;• media commissions;• newspaper ads;• promotions;• resident relations;• signage;• supplies (marketing);• tenant relations;• Yellow Pages; and• other.
16(i)	MINUS	Professional fees, including the following: <ul style="list-style-type: none">• accounting or tax preparation fees;• architectural fees;• attorney fees;• bookkeeping fees;• engineering fees;• legal fees/expense;• professional fees; and• other.



**REQUIRED UNDERWRITTEN NCF
(CONVENTIONAL LOANS)**

Item	Function	Description
16(j)	MINUS	<p>General and administrative, including the following:</p> <ul style="list-style-type: none">• ad valorem tax;• administrative fee;• alarm system;• answering service;• auto leasing;• auto repairs;• bank charges;• broker commission/fees;• business license;• cable;• cell phone/pager;• commissions;• computer repairs;• courtesy patrol;• credit check;• donations;• education;• entertainment;• equipment lease/rental;• eviction expense;• fire extinguisher;• freight and shipping;• leased equipment;• leasing commissions;• leasing office expense;• licenses;• life safety;



**REQUIRED UNDERWRITTEN NCF
(CONVENTIONAL LOANS)**

Item	Function	Description
16 (j) continued	MINUS	<ul style="list-style-type: none">• mileage;• miscellaneous general and administrative expenses;• model apartment;• moving expense;• office supplies;• office unit (non-revenue unit);• permits;• personal property taxes;• postage;• printing;• public relations;• rental commissions;• rental expense;• security;• security vehicle and maintenance vehicle;• space designs and drawings;• subscription dues;• telephone;• travel;• truck repairs;• uniform service;• utility vehicle;• vehicle lease;• vehicle repair and expense; and• other.



**REQUIRED UNDERWRITTEN NCF
(CONVENTIONAL LOANS)**

Item	Function	Description
16(k)	MINUS	<p>Other expenses, including the following:</p> <ul style="list-style-type: none"> • ancillary expense; • franchise taxes and fees; • general building; • miscellaneous; • on-going costs associated with any Interest Rate Cap Agreement; • other expenses/costs; and • for STR, <ul style="list-style-type: none"> - taxes, fees, etc. imposed by the governing jurisdiction, and - if applicable, the difference in actual lease STR income and an equivalent market rate apartment rent (as if leased as an apartment unit). <p>For example, if actual lease STR income for a unit is \$1,000 and market rate residential rent for that unit is \$900, then deduct \$1,200 ($\\$1,000 - \\$900 = \\$100 \times 12$ months) as an Other expense.</p> <p>Do not include the following:</p> <ul style="list-style-type: none"> • amortization; • depreciation; • entity (i.e., filing, license, etc.); • financing fees; • initial or upfront costs associated with any Interest Rate Cap Agreement; • interest; • legal fees associated with securing Mortgage Loans; • life insurance; • owners draw; • partnership fees; • principal payments on any loan; • sales tax paid; and • trust account fees.



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17	MINUS	Ground rent for any Ground Lease or any master lease. Ground Lease bonus rent and/or escalations during the term of the Mortgage Loan must be considered when calculating Underwritten NCF and analyzing refinance risk.
	EQUALS	UNDERWRITTEN NOI
18	MINUS	Replacement Reserve expense, including <ul style="list-style-type: none"> • a minimum annual amount of \$200 per unit, or • a greater amount if required in Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve. Replacement Reserve expense must be included whether the escrow is funded or not.
	EQUALS	UNDERWRITTEN NCF

202.02 Underwritten DSCR

Requirements

You must calculate Underwritten DSCR per the following table.

Item	Function	Description
1		Underwritten NCF per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF) .
2	DIVIDED BY	Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment, including amortization, and the greater of <ul style="list-style-type: none"> • the actual note rate, or • the required Underwriting Interest Rate Floor per Form 4660.



When calculating Underwritten DSCR for a Mortgage Loan with an interest-only period, you must use the same level debt service payment, including amortization, regardless of the length of the interest-only period.

The Underwriting Interest Rate Floor, if applicable, is the lowest interest rate you may use to determine the Mortgage Loan amount. If the Gross Note Rate is below the required Underwriting Interest Rate Floor, per Form 4660, you must use the Underwriting Interest Rate Floor to establish the permitted Mortgage Loan amount. All underwriting Tier requirements must be based on the Underwritten NCF.



Glossary

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 under the Note.

Synonyms

- Borrowers
- Borrower's

D

Decontrol Event For Properties located in New York City, an event that causes a property or unit to be removed from rent control but subject to rent-stabilization pursuant to New York City rent stabilization laws.

F

Form 4660 Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the minimum 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

Gross Note Rate Interest rate stated in the Loan Documents.

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



I

Interest Rate Cap Agreement

Contract setting forth the terms and conditions of an Interest Rate Cap, Hedge, or Swap.

Synonyms

- Interest Rate Hedge Agreement
- Interest Rate Swap Agreement

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 Origination Date

Date the Lender funds a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date

P



Property

Multifamily residential property securing the Mortgage Loan and including the land (or Leasehold interest in land), Improvements, and personal property (as defined in the Uniform Commercial Code).

Synonyms

- Properties
- Property's

R

Replacement Reserve

Custodial Account established by the Lender and funded by deposits from the Borrower over the term of the Mortgage Loan to fund the replacement of capital items at the Property.

Synonyms

- Replacement Reserves

S

Security Instrument

Instrument creating a lien or encumbrance on 1 or more Properties and securing the obligations under the Loan Documents.

Stabilized Residential Occupancy

Percentage of Property units physically occupied by Qualified Occupants, per [Part II, Chapter 1: Attributes and Characteristics, Section 104.02: Qualified Occupants](#) as adjusted for the applicable Part III products and features.

U

Underwritten Net Cash Flow

Net Cash Flow as adjusted by the Lender per [Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis](#) and the applicable products and features in Part III.

Synonyms

- Underwritten NCF