Multifamily Selling and Servicing Guide

Effective as of August 1, 2019

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Section 203 Refinance Risk Analysis

☑ Requirements

You must:

- Analyze the ability of the Borrower to refinance the Mortgage Loan.
- Calculate the following:
  - a "reversion" cap rate, which is the expected capitalization rate that could be supported based on the projected NCF for the first year following the Mortgage Loan Maturity Date (for example, using the projected NCF in year 11 for a 10-year Loan term); and
  - a Refinance Interest Rate, which is the maximum interest rate that could be supported based on the UPB required DSCR and projected NCF for the first year following the Mortgage Loan Maturity Date.

203.01 Base Assumptions

☑ Requirements

You must derive proforma NCF for the term of the Mortgage Loan as follows:

- Year 1: Underwritten NCF.
- Income Growth Rate: 2%.
- Economic Vacancy: hold underwritten economic vacancy level for the Mortgage Loan term.
- Expense Growth Rate:
  - 3%; and
  - for real estate taxes,
    - 3% (or 2% for California acquisitions), or
    - increase Property taxes if an abatement expires or taxes are expected to rise during the loan term followed by 3% trending, or
    - for refinance transactions in California only, no trending is required until the year in which the actual tax bill would surpass the underwritten taxes, then trend Property taxes at 2%.

You must estimate the principal amount of a Choice Refinance Loan as follows:

- Amortization: 30 years or the amortization for the applicable product or features.

- DSCR: The minimum Tier 2 DSCR for the applicable product or features, per Form 4660.
- LTV: The maximum Tier 2 LTV for the applicable product or features, per Form 4660.

Guidance

Since these base assumptions are indicative only, you may use more conservative estimates if warranted by circumstances particular to the Property.

In most cases, the combined effect of principal amortization and NCF growth should result in a refinancing at the minimum DSCR and maximum LTV for Tier 2, using a reasonable interest rate.

You should consider the following refinance parameters:

- A target reversion capitalization rate at least 2.0% greater than the initial capitalization rate used for determining Underwriting Value.
- A Refinance Interest Rate at least 2.25% greater than the current 10-year Amortizing Nationwide Underwriting Floor rate, per Form 4660.

203.02 Alternative Assumptions

Guidance

If you determine that the base assumptions do not appropriately estimate the Property's NCF over the Mortgage Loan term, you may undertake an alternative risk analysis using assumptions that deviate from the base assumptions.

You should specifically identify and support any deviations with reliable evidence and historical and projected market trends. You should state your conclusions and discuss any mitigating factors, such as the

- strength of the Sponsor or the submarket,
- Property's characteristics, or
- Property's operating history and performance.

Income and Expense Growth Rates: Income and expense trending should incorporate projected market rates based upon general economic, market, and submarket conditions from reliable sources. For example:

- Rents on recently signed leases should only be used for estimating income growth in years 1 and 2.

- Rent projections greater than 2% should not be used beyond year 4.
- When improvements in market economic occupancy or sustained market rental rate increases are widely anticipated, growth trends above 2% may be supported.
- Projections of income growth resulting from Property renovations or improved operations should be limited to the first 3 years.
- When a Property is subject to a scheduled reassessment or a tax abatement phase-in period, tax expense should be adjusted appropriately.
- When you expect to incur costs for tenant improvement allowances and leasing commissions, or to realize rent increases from the rollover of tenants, commercial income should be adjusted appropriately.

Economic Vacancy: Properties in submarkets that are experiencing depressed economic conditions due to temporary demand or supply issues may be modeled to reflect the economic vacancy projected by a reliable source. If you expect a decrease in vacancy to achieve stabilized levels, you should consider

- the anticipated timing, and
- effect of decreased economic vacancy on projected income growth over the same time period.

Glossary

B

Borrower	Person who is the obligor under the Note. **Synonyms** • Borrowers • Borrower's

C

Choice Refinance Loan	Mortgage Loan refinancing a Portfolio Mortgage Loan using the streamlined underwriting requirement per Part III, Chapter 18: Choice Refinance Loans. **Synonyms** • Choice Refinance Loans

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

M

Maturity Date	Date all amounts due and owing under the Mortgage Loan become fully due and payable per the Loan Documents. **Synonyms** • Maturity Dates

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

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

Refinance Interest Rate	Maximum interest rate that could be supported based on the UPB, required DSCR, and projected Net Cash Flow for the first year following the Maturity Date.

S

Sponsor	Principal equity owner and/or the primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).

U

Underwriting Value	Value of the Property determined by the Lender to size the Mortgage Loan per Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation.
UPB	Unpaid Principal Balance