Fannie Mae®

Multifamily Selling and Servicing Guide

Effective as of February 12, 2025

Fannie Mae

TABLE OF CONTENTS

Summary of Changes

HIGHLIGHTS
Effective for Mortgage Loans Committed on or after February 12, 2025, updated Underwritten Net Cash Flow (Underwritten NCF) tables in: • Part II, Chapter 2: Valuation and Income; and • multiple chapters in Part III: Products and Features.

Primary Changes

To align with previously published inflation guidance, updated Underwritten NCF requirements for Property management fees, insurance, and real estate taxes in:

- Part II, Chapter 2: Valuation and Income;
- Part III, Chapter 1: Student Housing Properties;
- Part III, Chapter 5: Seniors Housing Properties;
- Part III, Chapter 6: Manufactured Housing Communities;
- Part III, Chapter 7: Multifamily Affordable Housing Properties;
- Part III, Chapter 8: Cooperative Properties; and
- Part III, Chapter 9: Small Mortgage Loans.

Questions

Please contact the Fannie Mae Deal Team with any questions.

Chapter 2 Valuation and Income

Section 201 Market Analysis

Requirements

When structuring the Mortgage Loan, you must:

- evaluate the Property's market; and
- using objective factors, consider its
  - strengths, and
  - weaknesses.

Section 202 Appraisal and Valuation

202.01 Appraisals

202.01A Appraiser Selection

Requirements

You must:

- document the selection and approval of an Appraiser, who is:
  - a Certified General Appraiser (or licensed or certified per state law, if that state does not use the Certified General Appraiser designation);
  - listed in good standing on the state roster per Title XI of FIRREA; and
  - actively prepares multifamily appraisals in the Property's market;
- require the Appraisal to:
  - be in a narrative format, using only objective factors;
  - be signed by the Appraiser;
  - be certified by the Appraiser to conform with current USPAP requirements; and
  - comply with:
    - Instructions for Appraisers (Form 4827); and

- any governmental regulations in effect when the Mortgage Loan was originated, including
  - FIRREA,
  - all fair lending laws, and
  - all fair housing laws;

- provide the Appraiser all applicable documents needed to accurately assess Property's value, including:
  - the most recent PCA Report, or any other inspection reports (e.g., a structural engineering report);
  - a rent roll dated within 60 days of the Appraiser's inspection date;
  - Property operating statements detailing
    - income and expenses for the previous year (if available, for the previous 2 years), and
    - year-to-date income and expenses;
  - your sample of residential leases reviewed;
  - copies of any:
    - executed commercial leases, including all amendments and attachments;
    - ground leases;
    - easements or regulatory agreements; and
    - any purchase/sales contracts executed within 3 years before the Appraisal date;
  - any Environmental Site Assessments;
  - architectural plans, if the Property is not yet completed;
  - site plans/surveys, if available;
  - for a Moderate Rehabilitation Property, details of the
    - capital expenditures incurred, and
    - total construction costs; and
  - any information that may affect the Appraiser's estimate of the Property's value; and

- not accept any Appraisal completed by an Appraiser selected, retained, or compensated by:
  - the Borrower;
  - the Sponsor;
  - any Key Principal;
  - any Guarantor;
  - for an acquisition, the seller or any related party; or
  - any third party, including Mortgage Loan
    - Brokers, or
    - Correspondents.

Guidance

If final reports are unavailable, you may send draft versions of the

- PCA Report, and
- Environmental Site Assessments.

If the final reports differ materially from the drafts sent to the Appraiser, you must:

- forward the final reports to the Appraiser; and
- inquire whether the Appraisal should be updated based on the final reports.

202.01B Permissible Appraiser Communications

Requirements

When communicating with an Appraiser, you must comply with the Appraiser Communications table.

Appraiser Communications	
You may...	You must not...

Appraiser Communications	
• obtain supporting information for a specific market, including: - sales or rental comparable properties; - rent or expense data; - capitalization rate data; - recent sales; or - price per unit or square footage ranges; • provide all documents needed to accurately assess the Property's value per this Chapter; • share or request additional supporting comparable property information; and • request additional documents supporting the Appraiser's conclusions.	provide any Mortgage Loan data, such as • LTV, • DSCR, • amount, or • Underwritten NCF.

202.01C Valuation Date

Requirements

Valuation Date	
If the Appraisal Date is more than...	You must...
6 months before the Commitment Date	Instruct the Appraiser to update the Appraisal per Instructions for Appraisers (Form 4827).
12 months before the Commitment Date	Order a new Appraisal.

Guidance

You may be required to obtain a new or updated Appraisal if Fannie Mae determines the market deteriorated between the

- Appraisal Date, and
- Commitment Date.

202.01D Appraisals Ordered by Another Lender

☑ Requirements

If you Deliver a Mortgage Loan with an Appraisal prepared by an Appraiser selected by another lender, you must:

- make all representations and warranties to Fannie Mae regarding the Appraisal; and
- confirm it complies with this Guide.

202.01E Lender Appraisal Review

☑ Requirements

Your employees must:

- review and approve each Appraisal for adequacy and compliance; and
- ensure the Appraisal includes:
  - an accurate description of the Property and the market, including:
    - the Property's complete legal description;
    - any information you provided the Appraiser;
    - color photographs of the Property's
      - exterior,
      - interior common areas,
      - typical unit interiors,
      - surrounding area,
      - rental comparables,
      - sales comparables, and
      - commercial rental comparables;
    - maps showing the Property's location relative to the location of the
      - land comparables,
      - current rental comparables,
      - future rental comparables, and

        - sales comparables;
    - qualifications of the
        - Appraiser, and
        - any supervising Appraiser; and
    - a copy of your
        - complete signed engagement letter with the Appraiser, and
        - communications with the Appraiser regarding the Appraisal scope;
- an opinion of the Property's value per Part II, Chapter 2: Valuation and Income, Section 202.02A: Appraised Value, and supported by
    - market data,
    - logical analysis, and
    - sound professional judgment;
- an opinion of the Property's insurable value; and
- an industry standard form of Appraisal appropriate for the Mortgage Loan's
    - size, and
    - structure.

You must:

- return any report to the Appraiser that:
    - is incomplete; or
    - lacks credibility; and
- ensure your Appraisal review:
    - is documented in the Transaction Approval Memo;
    - is accompanied by all other Appraisals you ordered on the Property during the past 3 years; and
    - includes all information per the following Appraisal Analysis table.

Appraisal Analysis	
For...	You must...
Market Conditions	Confirm the Appraisal accounts for current market conditions, including • supply and demand dynamics, • interest rates, and • economic factors.
Data Accuracy	Verify the Appraisal's data accuracy, including • Property details, • recent sales prices, and • relevant market data.
Property Inspections	Determine if the Appraiser conducted a thorough inspection of the Property, including random sampling of occupied and vacant units per Instructions for Appraisers (Form 4827).

Appraisal Analysis	
Sales/Rental Comparable Analysis	• Determine if the Appraiser used appropriate comparable properties similar in: - size and/or unit count (on both a per-unit and a per-square foot basis); - type (e.g., high-rise, mid-rise, garden, etc.); - age; - condition; - in-unit finishes; - amenities; - location, including ▪ market, ▪ submarket, and ▪ distance to subject; and - sales of comparable properties, with at least 1 ▪ being a listing/pending sale, or ▪ sold within 24 months of the Appraisal Date. • If appropriate comparable properties were not used, either: - coordinate with the Appraiser to obtain additional comparable properties; or - provide the Appraiser additional comparable properties from Appraisals ▪ for any prior transactions you originated within the last 12 months before the Appraisal Date, or ▪ from any external data sources verifiable by the Appraiser.
Market Rents and Expense Analysis	If the Appraiser's proforma income or expenses substantially differ from the Property's income and expenses used to calculate the Underwritten NCF, provide additional supporting comparable property data or rationale supporting your conclusions.

Appraisal Analysis	
Capitalization Rate Analysis	Provide your assessment that the capitalization rate: • supports your final Underwriting Value; and • is within comparable capitalization rates compared to - your portfolio data, or - any other external data sources you use to review appraisals.
Value Reconciliation	• Review how the Appraiser reconciled the values obtained from different approaches to determine the final opinion of value. • Document your assessment.

For each Appraisal, you must ensure all:

- Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered and the review documented in the Transaction Approval Memo; and
- unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

202.01F Subsequent Appraisals

☑ Requirements

For any Mortgage Loan, you must not order, obtain, use, or pay for a subsequent Appraisal unless:

- you document in your Transaction Approval Memo that the initial Appraisal:
  - was not credible; or
  - violated legal and/or professional standards related to
    - USPAP, or
    - nondiscrimination; and
- the subsequent Appraisal:
  - is required per your pre-established written pre- or post-funding

- Appraisal review policy;
- adheres to a policy of selecting the most reliable Appraisal rather than the Appraisal with the highest value; or
- is required by law.

202.01G Appraiser Discontinuance or Misconduct

☑ Requirements

You must promptly notify:

- Fannie Mae if you discontinue using any Appraiser who completed Appraisals within the past 12 months for Mortgage Loans you Delivered; and
- Fannie Mae and the applicable state Appraiser certifying and licensing agency, or other regulatory body, if you believe an Appraiser is:
  - violating USPAP, fair lending, fair housing, or other applicable laws;
  - not complying with Instructions for Appraisers (Form 4827) in violation of its engagement with you; or
  - engaging in unethical conduct.

202.02 Valuation

202.02A Appraised Value

☑ Requirements

You must ensure:

- the Appraiser's engagement letter requires compliance with Instructions for Appraisers (Form 4827);
- the Appraiser provides an opinion of the market value on an "as is" basis;
- the Appraiser's opinion of the market value covers:
  - each separate Project per Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership; and
  - the aggregate market value of all Projects; and

- regardless of any allocation in the purchase/sales agreement, the Appraiser's opinion of the market value excludes any value from
    - goodwill,
    - business value (permitted for Seniors Housing Properties),
    - intangibles,
    - furniture,
    - fixtures (unless customary in the market), or
    - equipment.

You may also request the Appraiser provide an opinion of the Property's market value on an "as completed" basis, but you must only use an "as completed" value if all of the following apply:

- less than 12 months have passed between the
    - Borrower's acquisition of the Property, and
    - Commitment Date;
- for any capital improvements completed after the Mortgage Loan Origination Date to be considered in an "as completed" value, they must be:
    - Immediate Repairs listed in the PCA; or
    - improvements identified by the Borrower, if you agree the improvements will add Property value;
- all capital improvements are included in either the
    - Completion/Repair Schedule, or
    - Rehabilitation Reserve Agreement;
- sufficient funds to complete all capital improvements are deposited into either the Completion/Repair Escrow or the Rehabilitation Reserve Account:
    - for capital improvements identified as Immediate Repairs, the funds must cover any higher funding percentage you require; and
    - for capital improvements identified by the Borrower, the funds must cover the estimated cost (including a cost overrun allowance); and
- all capital improvements must be completed within:

- 12 months after the Mortgage Loan Origination Date, if identified by the Borrower; or
- any shorter time period per Part II, Chapter 4: Inspections and Reserves, Section 404: Completion/Repairs, if listed as Immediate Repairs.

202.02B Property's Sale History

Requirements

You must:

- analyze the Property's sale history for the last 3 years, including any transfer of a Controlling Interest in the owner;
- address the following in your Transaction Approval Memo:
  - if a sale occurred within the last 24 months, document the
    - circumstances of the sale, and
    - support for any increased Appraised Value by analyzing any
      - Net Cash Flow increases,
      - capitalization rate compression, and
      - value-add market drivers; and
  - if any stated sales price per the purchase/sales agreement differs from the transfer price per the public records or third-party reports, investigate and document the discrepancy;
- for any acquisition, confirm the seller was the Property owner in the real estate records when the purchase/sales agreement was signed;
- evaluate the purchase/sale contracts to
  - clearly identify the
    - seller, and
    - purchaser, and
  - confirm the sale was an arm's length transaction;
- review the final settlement statement before the Mortgage Loan Origination Date to confirm accuracy of the

    - purchase price,
    - closing costs, and
    - any cash in/out to the seller and purchaser; and
- submit a copy of:
    - the final settlement statement at Delivery; and
    - all purchase/sales contracts and amendments to
        - the Appraiser, and
        - Fannie Mae.

202.02C Underwriting Value

Requirements

Your Underwriting Value must not exceed the Appraised Value, as reduced by any adjustments you deem necessary, accounting for:

- your analysis of the Property's sales history; and/or
- Property deficiencies that cannot be cured within 6 months after the Appraisal Date.

If less than 12 months have passed between the Borrower's acquisition of the Property and the Commitment Date, your Underwriting Value must not exceed the lower of the

- Appraised Value, or
- sum of the:
    - Property's acquisition price per the title company settlement statement, with no allocations to:
        - goodwill,
        - business value (permitted for Seniors Housing Properties),
        - intangibles,
        - furniture,
        - fixtures (unless customary in the market), or
        - equipment;

- cost of capital improvements or repairs that increase the Property's value, if
  - completed and fully paid, or
  - sufficient funds for completion are deposited in the Completion/Repair Escrow or reserve account; and
- actual acquisition costs, not exceeding 3% of the acquisition price, including:
  - Origination Fee;
  - arm's length acquisition fee (generally 1% - 2%) paid to an unrelated Person if documented in the Settlement Statement;
  - third-party report fees;
  - Borrower-paid legal fees incurred on your behalf;
  - title search and title insurance fees;
  - survey fees;
  - real estate and stamp taxes;
  - deed-recording fees; and
  - credit report charges.

Guidance

Actual acquisition costs should exclude any prepaid operating expenses or deposits applied toward future operating expenses or Property improvements, including:

- prepaid or escrowed
  - real estate taxes, or
  - insurance premiums;
- prepaid
  - utilities,
  - Mortgage Loan interest, including any interest rate buydown expense,
  - rents, or
  - security deposits;

- funded
  - Replacement Reserve (including any initial deposit),
  - Interest Rate Cap cost,
  - operating or Restabilization Reserve, or
  - Borrower-controlled Property operating or capital accounts;
- fees included in the Gross Note Rate, including any
  - Origination Fee, or
  - broker fee;
- acquisition fees paid to a Borrower-Affiliate; and
- for an MAH Property, pre-paid Bond-related and compliance monitoring fees.

Section 203 Income Analysis

203.01 Underwritten Net Cash Flow (Underwritten NCF)

Guidance

When calculating the Property's Underwritten NCF, you should:

- use objective measures to determine the revenue generated and the expenses incurred;
- use the best information available, including
  - historical performance, and
  - anticipated operations;
- use best efforts to obtain operating statements for the prior 3 years;
- obtain the prior full-year operating statement or, at a minimum, one covering the trailing 6 months (annualized);
- request trailing 3-month physical and economic vacancy history if not included on the operating statement provided;
- use best efforts to obtain a current aged receivables report, listing rent delinquencies at day
  - 30,
  - 60, and

- 90;

- review operating statement and rent roll updates, ensuring no inexplicable variances compared to previously provided statements;
- if variances are identified compared to previously provided statements, they should be
  - investigated,
  - reconciled, and
  - documented in the Transaction Approval Memo; and
- consider if 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, for:

- acquisitions only, rely on the Borrower's budgeted operating statements; and
- all Mortgage Loans, calculate the Underwritten NCF more conservatively, if warranted by specific Property circumstances.

Requirements

You must:

- determine the reasonableness of the Property's current income and expenses based on historical data from external real estate data aggregator services;~~ and~~
- if adjustments were made to any reviewed historical operating statement:
  - document and reconcile each:
    - individual, adjusted line item; and
    - amount; and
  - provide supporting detail in the Transaction Approval Memo; and
- 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		
1		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. 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: • 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 per 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]
5	MINUS	Concessions - the aggregate amount of forgone residential rental income 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, including any adjustments to other income for bad debt.[1]
	EQUALS	NET RENTAL INCOME (NRI)[2]

1 The total of Items 4, 5, and 6 must equal the greater of • the difference between the trailing 3-month net rental collections (annualized) and GPR, or • 5% of GPR. 2 NRI must reflect projected operations for the underwriting period. a. You must assess the NRI using these parameters and fully support any changes: • 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 rents and collections are stable or increasing, and any negative fluctuation can be reconciled and adequately explained, you may use an NRI that exceeds the trailing 3-month NRI, provided the NRI does not exceed the highest 1-month NRI used in the trailing 3-month NRI calculation. b. You must assess declines in NRI using these parameters: • Assess if any decline occurred 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 the NRI downward 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.
CALCULATION OF OTHER INCOME

7	PLUS	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. You must assess the individual month's other income 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 other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation. When determining the other income, you must • 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 leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.
9	PLUS	Actual income from STR units.
10	MINUS	10% of the actual commercial space income (total of Items 8 plus 9).[3]
11	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.[3]
3 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		

12	PLUS	Premiums, provided that the income must: • 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	Corporate premiums, provided that this income must: • 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.
14	PLUS	Laundry and vending.
15	PLUS	Parking - income from residential parking/garage spaces.

16	PLUS	All other income, including the following: • 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. The following must not be included: • 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		

17	MINUS	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. You must access: • past operating history; • the Appraiser's expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrower's budget (in the case of an acquisition). You must: • analyze historical operations at the Property; and • apply an appropriate increase over the prior year's operations in determining an estimate; and • include all STR-related expenses in their respective expense line items, including - cleaning, - furnishing, and - repairs.

17(a)	MINUS	Property management fee equal to the greatest of: • 3% of EGI[4]; • actual property management fee, provided you - exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan, and - include any known contractual fee increases occurring over the next 24 months; or • Appraiser's concluded market property management fee.
4 Minimum property management fee may be 2.5% of EGI (rather than 3% of EGI) provided that the: • underwritten management fee is at least $~~300~~500 per unit; • ~~actual third-party management fee is equal to or less than the underwritten management fee;~~ • actual management fee is equal to or less than the underwritten management fee (provided you exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan); • Mortgage Loan has an original principal amount greater than $~~3~~9 million; and • market management fees support the underwritten management fee for similarly sized properties.		

17(b)	MINUS	Real estate taxes based on the greatest of: • actual future tax bill(s) covering a full calendar year; • prior full year's taxes multiplied by 103%; or • in California, the sum of: - any special assessments; plus - the millage rate multiplied by the greater of the ▪ Mortgage Loan amount, or ▪ assessed value. You must, for: • any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, include fully assessed real estate taxes; • any Property whose sale would trigger an automatic reassessment, include any expected increase; • any Property with an annual or scheduled reassessment within 12 months after the Mortgage Loan Origination Date, include any expected increase; • all Properties: - use the most recently available assessed value (even if preliminary); and - do not use expected results from a protest, unless the protest is legally binding on the Borrower and taxing authority. If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must: • 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, deferral, or PILOT (i.e., it is tied to the Property and not the owner).

17 (b) continued	MINUS	If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider: • 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.
17(c)	MINUS	Insurance equal to: • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or • for insurance policies with a remaining term of: - less than 6 months, 110% of the current expense; or - 6 to 12 months, 105% of the current expense. For an acquisition: • only underwrite premiums from the purchaser's carrier; and • disregard the seller's current insurance - premiums, or - estimates. If the Property's area is prone to Catastrophic Events, ensure the expense aligns with the market.

17(d)	MINUS	Utilities, including the following: • 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.
17(e)	MINUS	Water and sewer.

17(f)	MINUS	Repairs and maintenance, including the following: • 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.

17(g)	MINUS	Payroll and benefits, including the following: • 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 personnel's salary; • subcontracted labor; • temporary help; • unemployment insurance; • worker's compensation; and • other.

17(h)	MINUS	Advertising and marketing, including the following: • apartment finder/guide; • banners; • brochures; • building signage; • finder's fee; • media commissions; • newspaper ads; • promotions; • resident relations; • signage; • supplies (marketing); • tenant relations; • Yellow Pages; and • other.
17(i)	MINUS	Professional fees, including the following: • accounting or tax preparation fees; • architectural fees; • attorney fees; • bookkeeping fees; • engineering fees; • legal fees/expense; • professional fees; and • other.

17(j)	MINUS	General and administrative, including the following: • 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;

17 (j) continued	MINUS	• 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.

17(k)	MINUS	Other expenses, including the following: • ancillary expense; • franchise taxes and fees; • general building; • miscellaneous; • ongoing costs associated with any Interest Rate Cap Agreement; • other expenses/costs; and • for STR: - 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). 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 x 12 months) as an "other" expense. Do not include the following: • 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; • owner's draw; • partnership fees; • principal payments on any loan; • sales tax paid; and • trust account fees.

18	MINUS	For a Condominium Property or a Shared Use Property: • annual assessment fees, including any expected assessment fee escalation; and • any known special assessments.
19	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
20	MINUS	Replacement Reserve expense, including a • minimum annual amount of $200 per unit, or • greater amount if required in Part II, Chapter 4: Inspections and Reserves, Section 405: Replacement Reserve. Replacement Reserve expense must be included whether the escrow is funded or not.
	EQUALS	UNDERWRITTEN NCF

203.02 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 203.01: Underwritten Net Cash Flow (Underwritten NCF).

Item	Function	Description
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 the • actual note rate, or • 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.

Section 204 Refinance Risk Analysis

Requirements

You must prepare an exit strategy analyzing the Borrower's ability to refinance the Mortgage Loan in the year after the Maturity Date (e.g., use the projected NCF in year 11 for a Mortgage Loan with a 10-year term), by c alculating a:

- “reversion” cap rate, which is the expected capitalization rate able to be supported per the projected NCF; and
- Refinance Interest Rate.

204.01 Base Assumptions

Requirements

For Loan Year 1, use the Underwritten NCF. For all subsequent Loan Years, you must derive proforma NCF as follows:

Factor	For...	Use...
Income Growth Rate	• Structured Transactions, and • Mortgage Loans secured by multiple Properties	2%.
	All other Mortgage Loans	the growth rates published in DUS Gateway for the Property.
Economic Vacancy	All Mortgage Loans	the underwritten economic vacancy rate.
Real Estate Taxes	California Properties	• acquisitions, 2%; or • refinances, no trending is required until the year when the actual tax bill would surpass the underwritten taxes, then trend by 2%.
	Non-California Properties	• use 3% for - Structured Transactions, and - Mortgage Loans secured by multiple Properties; and • for all other Mortgage Loans, use the growth rates published in DUS Gateway for the Property.

Factor	For...	Use...
Real Estate Tax Abatements, Exemptions, Deferrals, or PILOTs	All Mortgage Loans	• if an abatement, exemption, deferral, or PILOT begins phase out or expires within 5 years after the Maturity Date, use fully assessed real estate taxes; and • if an abatement expires or taxes are expected to rise during the Mortgage Loan term, increase taxes to the expected level, then trend by: - 3% for ▪ Structured Transactions, and ▪ Mortgage Loans secured by multiple Properties; or - the growth rate published in DUS Gateway in the year prior to the adjustment for all other Mortgage Loans.
Management Fee	All Mortgage Loans	the underwritten rate.
Replacement Reserves	All Mortgage Loans	the underwritten value.
Insurance and Other Expenses	• Structured Transactions, and • Mortgage Loans secured by multiple Properties	3%.
	All other Mortgage Loans	the growth rates published in DUS Gateway for the Property.

You must estimate the Mortgage Loan UPB at the Maturity Date as follows:

For...	Use...
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

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.

204.02 Alternative Assumptions

Requirements

You must:

- present an alternative risk analysis using assumptions that deviate from the base assumptions if:
  - you determine the base assumptions do not appropriately estimate the Property's NCF over the Mortgage Loan term; or
  - third-party data providers project rent growth materially below Fannie Mae growth rates published in DUS Gateway;
- identify and support any deviations with
  - reliable evidence, and

- historical and projected market trends; and

- state your conclusions, discussing any mitigating factors, such as the:
  - strength of the
    - Sponsor, or
    - submarket; and
  - Property's
    - characteristics,
    - operating history, and
    - performance.

Guidance

Income and Expense Growth Rates: Income and expense trending should incorporate projected market rates based on general economic, market, and submarket conditions from reliable sources, as well as the Property's characteristics. For example:

- Rents on recently signed leases should only be used for estimating income growth in Loan Years 1 and 2.
- Rent projections greater than the Base Assumption Income Growth Rate should not be used beyond Loan Year 4.
- When improvements in market economic occupancy or sustained market rental rate increases are widely anticipated, growth trends above the Base Assumption Income Growth Rate may be supported.
- Projections of income growth resulting from Property renovations or improved operations should be limited to the first 3 Loan Years.
- When a Property is subject to a scheduled reassessment or a tax abatement phase-in period, tax expense should be adjusted appropriately.
- If a tax abatement, exemption, deferral, or PILOT begins phase out or expires more than 5 years after the Maturity Date, consider if the increased expense within 10 years after the Maturity Date may affect the Borrower's ability to refinance, and warrants
  - a lower Mortgage Loan amount,

- faster amortization, or
- a reduced interest only period.

- 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.
- A substantially renovated Property, with improved in-unit finishes and/or new/renovated amenities, may experience different income and expense growth rates than properties of the same age; therefore, growth trends differing from the Base Assumption Income Growth Rate may be supported.

Economic Vacancy: Properties in submarkets with 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.

Section 205 Cash Out Analysis

☑ Requirements

You must:

- examine the risk of allowing cash out to the Borrower (see Form 4660 for a description of cash out transactions); and
- for New Construction, consider the Mortgage Loan amount relative to the Property's total development cost basis.

When underwriting a cash-out transaction, you must consider and document in the Transaction Approval Memo:

- the amount of hard equity remaining in the Property's debt structure, excluding prior permanent financing costs, such as interest or prepayment premium;
- the length of time the Borrower has owned the Property;
- the Property's

- effective age, and
- current physical condition;

- over the ownership period, any improvement in
    - asset quality,
    - the Property's operations (i.e., its NCF), or
    - value;
- if the Property's value increased due to an increase in NCF, rather than a decrease in the capitalization rate; and
- for New Construction, the Property's total development costs basis per the New Construction table:

New Construction	
For...	The Property's total development cost basis includes...
Land	• Purchase price; plus • Value created since acquisition from - zoning changes, - demolition, - infrastructure improvements, - parcel assembly over time, and - other subjective entitlements. Note: Valuation should be supported by recent land sale activity on a market and cash basis.
Hard Costs	Expenses for: • items including - substructure, - shell, - interiors, - construction services, - equipment, and - furnishings; • developer fee (8% maximum); and • general contractor fee (10% maximum).

New Construction	
Soft Costs	Fees for: • Appraisal, market studies, etc.; • professional services, including - architecture, - engineering, - consulting, - legal, and - accounting; • review, impact, and testing (i.e., surveys, feasibility, environmental, geotechnical); • building permits and utility access; and • any HUD and LIHTC processing.
Construction Financing Costs	Expenses for: • construction loan financing, including - interest, and - origination fee; • construction period - real estate taxes, - insurance, and - utilities; and • Bond related fees.
HUD or LIHTC New Construction	Amount supported by the Cost Certification.

Cash Out Transaction Support	
Factor...	Must...
Cash Out Proceeds	Be commensurate with the length of the ownership period.
Property Condition	Have improved or been good over the ownership period.
Property NCF	Have improved over the ownership period.

Cash Out Transaction Support	
Property Value	Have increased due to higher NCF over the ownership period.

Section 206 Borrower Business Plan

Requirements

For acquisitions or refinances where the Property is being repositioned through a substantial capital improvement plan, you must analyze (and document in your Transaction Approval Memo) the:

- Sponsor's:
  - business plan (either through a written plan or by a conversation with the Sponsor), including
    - market rent growth expectations,
    - any planned capital improvements,
    - any expected rent premiums after renovations,
    - operating expense management, and
    - value appreciation through capitalization rate compression;
  - expected ownership period for the Property relative to the Mortgage Loan term; and
  - expected investment returns from owning/operating the Property, assuming
    - acquisition at the Underwriting Value, and
    - a hypothetical disposition at the Mortgage Loan's Maturity Date;
- Mortgage Loan's Underwritten Capitalization Rate; and
- motivation in the Property's investment compared to the Borrower's other investment alternatives.

Section 207 Rent-Stabilized Properties

Guidance

For Rent-Stabilized Properties (e.g., located in New York State), you should:

- underwrite Property income based on current rents;
- exclude any potential rent increase for units converting to market rate from the projected NCF in the refinance risk analysis;
- assess and stress the cap rate used to determine the Underwriting Value, and consider obtaining an Appraisal before Rate Lock;
- for fund Sponsors or other Sponsors requiring minimum investment returns, consider whether the Sponsor's interests are aligned with the limited rent increases allowed under the law; and
- fund the Replacement Reserve to maintain the Property's physical condition.

Chapter 1 Student Housing Properties

Section 101 Description

101.01 Student Housing Property

Requirements

- A Student Housing Property is a multifamily rental property in which 40% or more, but less than 80%, of the units are leased to undergraduate or graduate students.
- A student with sufficient income to pay rent does not count toward the student unit concentration required for a Student Housing Property.

101.02 Dedicated Student Housing Property

Requirements

A Dedicated Student Housing Property is a multifamily rental property in which 80% or more of the units are leased to undergraduate or graduate students.

Guidance

A Dedicated Student Housing Property typically:

- caters to a student population due to its location;
- was specifically constructed as a student property or, although built as conventional multifamily housing, is now leased primarily to students; or
- is not readily rentable as conventional multifamily housing.

Section 102 Generally

Guidance

When underwriting a Student Housing Property or Dedicated Student Housing Property, you should consider the following questions:

- What percentage of units are leased to graduate students versus undergraduate students?

- Has the ratio of student to non-student tenants changed over the past several years?
- Is the Property marketable to non-student tenants, given the size, mix, and quality of the units?
- What is the rent structure? For example, are rents charged on a by unit basis or by bed basis?
- Who are the parties to the lease agreements? For example, are they typically signed by 1 tenant or all tenants, and/or co-signed by parents?
- What is the typical lease term?
- What is the enrollment outlook at the college/university?
- What is the student composition (i.e., full-time versus part-time) at the college/university?
- What are the current and forecasted supply and demand for student housing at the college/university? Will there be any college/university-sponsored construction?
- What is the Key Principal's experience with operating Student Housing Properties and Dedicated Student Housing Properties?
- What is the Property's proximity to campus? Can students walk to class and other campus locations?
- Is the Property conveniently located to a college/university-sponsored transportation line?
- Is the Property subject to a Ground Lease? If so, what are the structure and terms of the Ground Lease?

Requirements

If a Student Housing Property or Dedicated Student Housing Property is subject to a master lease, you must complete the Master Lease Review Checklist (Form 6480).

Section 103 Dedicated Student Housing Property

103.01 Eligible Property Characteristics

Requirements

You must ensure that a Dedicated Student Housing Property:

- caters to a campus with at least 10,000 students, the majority of whom are full-time students;
- is
  - located within 2 miles of a campus boundary line, as determined by the local municipality, or
  - near a college/university-sponsored transportation line; and
- has operated for at least 1 full school year (i.e., August/September through April/May).

Guidance

The Dedicated Student Housing Property should have stabilized occupancy no later than the month preceding the start of the first semester/quarter of the second full school year.

103.02 Ineligible Property Characteristics

Requirements

Fannie Mae will not purchase any Mortgage Loan secured by a Dedicated Student Housing Property that offers food service.

103.03 Residential Leases

Requirements

You must ensure that at least 80% of the units in a Dedicated Student Housing Property are leased for a minimum term of 12 months.

Guidance

Each student lease agreement should have

- a parental guarantee of the rent, or
- student tenants with sufficient income or other documented financial means to pay the rent.

103.04 Properties on College/University Land

Requirements

You must ensure that a Dedicated Student Housing Property located on college/university land meets the following:

- the Borrower has control over all economic decisions affecting the Property (such as financing, leasing, and management);
- the Key Principal
  - has at least 5 years of operating experience with Dedicated Student Housing, and
  - operates at least 1 other Dedicated Student Housing Property located on college/university land; and
- any Ground Lease complies with Part II, Chapter 1: Attributes and Characteristics, Section 104: Ground Leased Properties.

103.05 Additional Underwriting Documentation

Requirements

Your underwriting must include the following:

- name of the college/university and its current total enrollment;
- current enrollment percentages of full-time graduate and undergraduate students;
- location of the Property relative to the campus;
- whether the Property is part of the college/university's housing referral program;
- details of the Property's amenity package;
- whether the Property is convenient to a college/university-sponsored transportation line;
- detailed description of the related rental housing market, including
  - the amount of on-campus rental housing space occupied or available, and
  - any future on- or off-campus rental housing planned or under construction;
- percentage of the Property's units pre-leased for the semester/quarter;
- percentage of the Property's tenants who are students;
- percentage of the Property's leases that have a term of less than 12-

months;

- whether the Property is subject to a Ground Lease or master lease and, if so, the structure and terms of the lease; and
- whether parental guaranties are required for leases at the Property.

Section 104 Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF for Student Housing Properties and Dedicated Student Housing Properties.

For Dedicated Student Housing Properties, Fannie Mae will permit "by-the-bed" income and valuation for units occupied by students if the

- Property has at least 2 years of operating statements using that method, and
- rental rates are comparable to similar Student Housing Properties.

REQUIRED UNDERWRITTEN NCF (STUDENT OR DEDICATED STUDENT HOUSING PROPERTY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME (GRI) – market rents for vacant units based on a current rent roll (multiplied by 12), plus: • for a Student Housing Property – the lower of - actual rents in place for occupied units on a per unit basis, or - market rents that would be available if the Property was not leased to students; and • for a Dedicated Student Housing Property – the lower of - actual rents in place for occupied units on a per unit or "by the bed" basis, or - market rents for comparable Dedicated Student Housing Properties.

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]
5	MINUS	Concessions - the aggregate amount of forgone residential rental income 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, including any adjustments to other income for bad debt.[1]
	EQUALS	NET RENTAL INCOME (NRI)
1 The total of Items 4, 5, and 6 must equal or exceed the greater of • the difference between the trailing 12-month net rental collections (annualized) and GPR, or • 5% of GPR. If trailing 12-month NRI is not available, use a minimum 10% of GPR.		
CALCULATION OF OTHER INCOME		

7	PLUS	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. You must assess the individual month's other income 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 other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.
9	MINUS	10% of the actual commercial space income.[2]
10	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.[2]
2 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		

11	PLUS	Premiums[3], provided that the income must: • 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[3], provided that this income must: • 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, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
3 Premium or corporate premium income cannot exceed 3% of GRI.		
CALCULATION OF OPERATING EXPENSES		

14	MINUS	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. You must assess: • past operating history; • the Appraiser's expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrower's budget (in the case of an acquisition). You must: • analyze historical operations at the Property; and • apply an appropriate increase over the prior year's operations in determining an estimate.
15	MINUS	Property management fee equal to the greatest of: • 4% of EGI; • actual property management fee~~ (exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan~~, provided you~~); or~~ - exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan, and - include any known contractual fee increases occurring over the next 24 months; or • Appraiser's concluded market property management fee.

16	MINUS	Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
17	MINUS	Insurance ~~equal to:~~per Item 17(c) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF). • ~~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.~~
18	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
19	MINUS	Replacement Reserve expense per Part III, Chapter 1: Student Housing Properties, Section 105: Replacement Reserve.
	EQUALS	UNDERWRITTEN NCF

Section 105 Replacement Reserve

105.01 Determining Replacement Reserve

Requirements

The minimum Replacement Reserve amount must equal the greater of

- the amount calculated per Part II, Chapter 4: Inspections and

Reserves, Section 405: Replacement Reserve, or

- $250 per unit per year.

105.02 Replacement Reserve Funding

☑ Requirements

You must ensure full funding of the Replacement Reserve.

Chapter 5 Seniors Housing Properties

Section 501 Generally

501.01 Description

Requirements

A Seniors Housing Property is a multifamily residential rental property with Independent Living, Assisted Living, Alzheimer's/Dementia Care, or Skilled Nursing units.

501.02 Eligible Lenders

Requirements

You must be approved in writing to Deliver Seniors Housing Mortgage Loans.

501.03 Key Principal/Sponsor Experience

Requirements

You must ensure that the Key Principal or Sponsor has owned or operated Seniors Housing Properties of commensurate type, size, and service level as the Property.

Section 502 Eligible Properties

502.01 Eligible Properties

Requirements

You must ensure that a Seniors Housing Property has the following design features:

- convenience features for the elderly in all units, such as grab bars in the bathrooms and emergency pull-cords or equivalent safety items;
- a fully operational sprinkler system throughout each level of each building (including all units and common areas), regardless of local building code or other governmental requirements;
- a commercial kitchen for preparing meals for residents;
- kitchens or kitchenettes containing a refrigerator, microwave or comparable cooking element, and sink in each Independent Living

unit, and also in, each Assisted Living unit if consistent with the market; and

- bathrooms in each Independent Living and Assisted Living unit.

502.02 Ineligible Properties

☑ Requirements

Fannie Mae will not purchase any Mortgage Loan secured by a Seniors Housing Property:

- comprised of only Skilled Nursing units;
- that does not meet the Skilled Nursing NCF Test per Part III, Chapter 5: Seniors Housing Properties, Section 504.02: Skilled Nursing NCF Test; or
- if the original Seniors Housing Mortgage Loan UPB exceeds 100% of the portion of the Appraised Value
  - attributed to land and all Improvements, but
  - excluding any portion attributed to goodwill, business value, intangibles, and/or furniture, fixtures, and equipment.

Section 503 Continuing Care Retirement Communities (CCRCs)

☑ Requirements

You must ensure that a CCRC has:

- had at least 90% physical occupancy for each of the past 5 fiscal years;
- debt service reserves equal to at least 1 year of P&I; and
- a DSCR of at least 1.00 based on annualized rent collections and operating expenses, excluding net entrance fees.

For any CCRC with an entrance fee, your underwriting must include a summary and analysis of the following:

- actuarial report (including a copy of the report);
- range and weighted average of entrance fees offered at the Property, which must be within the range of median home values in the local

market;

- entrance fee refund plans (for example, full, partial, declining, non-refundable);
- required entrance fee reserve;
- whether the entrance fee reserve can be assigned as collateral for the Mortgage Loan;
- net entrance fee income (collections minus refunds) for the past 5 years;
- sufficiency of the entrance fee reserve;
- market analysis of entrance fees;
- underwritten net entrance fee income;
- historical annual resident turnover;
- required operating reserves;
- whether the operating reserves can be assigned as collateral for the Mortgage Loan;
- identity of all governmental authorities that license the Property and Seniors Housing Operator; and
- status of each required license.

Section 504 Seniors Housing Property Income

504.01 Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF for Seniors Housing Properties.

REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME per Item 1 in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).

2	PLUS	Medicaid income (does not include Medicare, which is included in Skilled Nursing income).
3	PLUS	Skilled Nursing income – actual trailing 12-month collections for Skilled Nursing units (if 12-month collections are not available, then actual trailing 6-month collections (annualized)).[1]
4	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)
5	MINUS	Physical vacancy – market rents for vacant units based on a current rent roll (multiplied by 12).[2]
6	MINUS	Concessions – the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.[2]
7	MINUS	Bad debt – the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.[2]
	EQUALS	NET RENTAL INCOME (NRI)[1]

1 Skilled Nursing income must not be grossed up to 100% before the 20% deduction is applied. An additional 20% is taken off the Skilled Nursing income.

2 The total of Items 5, 6, and 7 must equal the greater of:

• the difference between the trailing 3-month net rental collections (annualized) and the GPR; or

• the following percentages:

- Independent Living: if the percentage of Independent Living units is greater than 50%, then use 5% of GPR.
- Assisted Living (60 total units or more): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimer's/Dementia Care units is 50% or greater, then use 5% of GPR.
- Assisted Living (less than 60 total units): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimer's/Dementia Care units is 50% or greater, then use 10% of GPR.
- Alzheimer's/Dementia Care: if the percentage of Alzheimer's/Dementia Care units is 100%, then use 10% of GPR.
- Skilled Nursing units: use 20% of collections based on the trailing period used in determining Skilled Nursing income in Item 3.

You must determine if NRI declined per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and adjust Underwritten NRI as required.

CALCULATION OF ASSISTED LIVING SERVICE INCOME AND OTHER INCOME		
8	PLUS	Trailing 12-month nursing/medical income (includes Assisted Living service income).
9	PLUS	Trailing 12-month ancillary income attributable to Skilled Nursing units, if applicable.
10	PLUS	Trailing 12-month other income for second resident fees, meals, tray service, laundry, special transportation, community fees, parking revenue, and any other income.
CALCULATION OF NET ENTRANCE FEE INCOME		
11	PLUS	Net entrance fee income associated with CCRCs – resident entrance fee collections minus entrance fee refunds, but not more than the annualized average of the trailing 60-months of net entrance fee income.
CALCULATION OF COMMERCIAL INCOME		

12	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.
13	MINUS	10% of the actual commercial space income.[3]
14	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.[3]
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
3 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
CALCULATION OF OPERATING EXPENSES		
15	MINUS	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 operating expenses must not be included. You must assess: • past operating history; • the Appraiser's expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrower's budget (in the case of an acquisition). You must: • analyze historical operations at the Property; and • apply an appropriate increase over the prior year's operations in determining an estimate.

16	MINUS	Property management fee equal to the greatest of: • 5% of EGI; • ~~actual property management fee (exclude any portion of a non-arm's-length property management fee that is subordinated to the Mortgage Loan); or~~ • actual property management fee, including any known contractual fee increases occurring over the next 24 months; or • Appraiser's concluded market property management fee.
17	MINUS	Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
18	MINUS	Insurance ~~equal to:~~per Item 17(c) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF). • ~~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.~~
19	MINUS	Room expense – housekeeping, if applicable.
20	MINUS	Meals expense, if applicable.
21	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
22	MINUS	Replacement Reserve expense per Part III, Chapter 5: Seniors Housing Properties, Section 505: Replacement Reserve.

	EQUALS	UNDERWRITTEN NCF

504.02 Skilled Nursing NCF Test

Requirements

Fannie Mae will not purchase any Mortgage Loan if the Skilled Nursing NCF is more than 20% of the Property's NCF.

You must:

- Calculate the Skilled Nursing NCF at underwriting to determine if the Property will meet this Skilled Nursing NCF test.
- Retest all Properties with Skilled Nursing units annually after closing to ensure compliance.
- Contact the Fannie Mae Deal Team to ensure the Loan Documents for any transaction with Skilled Nursing units include appropriate modifications.

The Skilled Nursing NCF test is a Property-specific test. You must separately test a Property with Skilled Nursing units, if the Mortgage Loan is

- secured by multiple Properties, or
- cross-defaulted or cross-collateralized with another Mortgage Loan.

You must use the following table to calculate the Skilled Nursing NCF.

REQUIRED SKILLED NURSING NCF AND PERCENTAGE (SENIORS HOUSING PROPERTY)		
Item	Function	Description
SKILLED NURSING EFFECTIVE GROSS INCOME		
1		SKILLED NURSING INCOME – actual trailing 12-month collections for Skilled Nursing units (if 12-month collections are not available, then actual trailing 6-month collections (annualized)).

REQUIRED SKILLED NURSING NCF AND PERCENTAGE (SENIORS HOUSING PROPERTY)		
Item	Function	Description
2	MINUS	20% of collections based on the trailing period used in determining the Skilled Nursing income.
3	PLUS	Ancillary income attributable to Skilled Nursing units.
	EQUALS	SKILLED NURSING EFFECTIVE GROSS INCOME (EGI)
SKILLED NURSING EXPENSES		
4	MINUS	Fixed expenses – greater of actual or allocated fixed expenses (e.g., real estate taxes, liability insurance, etc.) for Skilled Nursing units.
5	MINUS	Variable operating expenses for Skilled Nursing units.
	EQUALS	SKILLED NURSING NCF
6	DIVIDED BY	Underwritten NCF per Part III, Chapter 5: Seniors Housing Properties, Section 504.01: Underwritten NCF.
	EQUALS	SKILLED NURSING NCF PERCENTAGE

504.03 Operating Lease Ratios

☑ Requirements

If the Seniors Housing Operator

- does not have any direct or indirect ownership interest in the Borrower or the Key Principal, or
- is not a Person Controlled by, under common Control with, or which Controls, the Borrower or Key Principal, then you must ensure that the Property meets the following ratios:

Ratios	Requirements
Operating Lease Coverage Ratio	The minimum underwriting ratios for Underwritten NCF to current year operating lease payments are: • 1.10 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and • 1.15 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimer's/Dementia Care, or Skilled Nursing units.
Operating Lease Payment to Debt Service Payment Ratio	The minimum underwriting ratios of the current year operating lease payments to the underwritten fixed rate debt service payments are: • 1.15 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and • 1.20 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimer's/Dementia Care, or Skilled Nursing units.

504.04 Operating Lease Analysis

☑ Requirements

Before finalizing the Loan Documents, you must:

- Obtain a copy of each management agreement, operating lease, master lease, and sublease including all exhibits and amendments.
- Upload into DUS Gateway a completed Seniors Housing Operating Lease Review Checklist (Form 6487.SRS) that analyzes the
  - underwriting and legal aspects of each lease and its impact on the operations of the Property, and
  - obligations of the Borrower, each Guarantor, and the Seniors

Housing Operator under the Loan Documents.

Section 505 Replacement Reserve

Requirements

The minimum Replacement Reserve amount must equal the greatest of:

- the amount calculated per Part II, Chapter 4: Inspections and Reserves, Section 405: Replacement Reserve;
- $300 per unit per year for a Property with no Skilled Nursing units; or
- $450 per unit per year for a Property with any Skilled Nursing units.

Section 506 Medicaid Funds

506.01 Dependency and Medicaid Transition Reserve

Requirements

You must analyze the EGI to determine the percentage derived from payments under a Medicaid provider agreement with a government authority or managed care organization (Medicaid Funds).

Operating Procedures

If more than 20% of the EGI is derived from Medicaid Funds, Fannie Mae may require that you

- establish a Medicaid transition reserve account, and/or
- enter into an account control agreement with the Borrower.

If Fannie Mae requires a Medicaid transition reserve, you must:

- determine the appropriate amount of the reserve by considering the
  - reimbursement rates of the government authority or managed care organization, and
  - percentage of Medicaid-supported residents at the Property;
- ensure that the Borrower sufficiently funds the reserve; and

- use the Modifications to Multifamily Loan and Security Agreement (Medicaid Transition Reserve) (Form 6237.SRS) and Modifications to Multifamily Loan and Security Agreement – Addenda to Schedule 2 – Summary of Loan Terms (Medicaid Transition Reserve) (Form 6102.21.SRS).

If Fannie Mae requires an account control agreement, you must

- require the Borrower to deposit the Medicaid Funds into a controlled account,
- include in the agreement an acknowledgement of Fannie Mae’s first Lien on, and control over, the Medicaid Funds, and
- obtain Fannie Mae's approval if you elect not to use Fannie Mae's form.

506.02 State Medicaid

Requirements

The Property must be located in a state that has a

- Medicaid waiver in place, or
- Medicaid plan that allows for the payment of services and housing costs from Medicaid Funds.

You must document the Medicaid waiver or plan and demonstrate that it allows for the payment of services performed, and housing costs incurred, at the Property.

Section 507 Consultant Reports

507.01 Management, Operations, and Regulatory Compliance

Requirements

You must engage a third-party professional to analyze the Property's management, operations, and regulatory compliance.

The third-party professional you select must have:

- been in good standing for the past 5 years as a licensed administrator, licensed practical nurse, or registered nurse; and
- at least 5 years of experience with

- the operation of Seniors Housing Properties, and
- regulatory matters affecting Seniors Housing Properties.

You must assess and summarize the information presented and conclusions reached by the third-party professional.

507.02 Management and Operations Reports

Requirements

You must obtain management and operations reports for the Property that assess:

- competency, performance, and experience of management at the corporate, regional, and Property levels;
- qualifications of key personnel,
  - noting their experience and length of time in current positions at the Property, and
  - including copies of available resumes;
- hiring and screening practices and personnel policies (such as employee handbooks, orientation materials, initial and in-service training materials, available resources);
- staffing levels, composition, and qualifications;
- risk management policies and procedures, including an analysis of the backgrounds of individuals employed to handle insurance and risk management matters;
- policies and procedures supporting and aligning resident services;
- availability and use of home health services, including whether
  - home health services are available,
  - home health services are provided by the Borrower, the Seniors Housing Operator, an Affiliate of the Borrower or the operator, or a third party, and
  - the home services provider leases space at the Property;
- policies and procedures for documenting residents' well-being (such as periodic resident assessments, tracking the general health condition of each resident, resident safety and evacuation plans);

- content of the admission application and the residency or lease agreement;
- resident turnover data;
- availability of replacements for the Seniors Housing Operator; and
- overall management and operations, including an analysis and detailed recommendations for any other matters material to the ownership, operation, or management of the Property.

507.03 Regulatory Compliance Report

Requirements

You must obtain a Regulatory Compliance Report for all licensed Seniors Housing Properties. The report must include the following information as of the date of the report:

- identity of all government authorities with jurisdiction over the Property and each authority's definition of the level of care permitted at the Property;
- summary and copies of all government surveys conducted during the past 3 years, including
  - a summary and analysis of all deficiencies identified in the surveys,
  - the severity of these deficiencies, and
  - the correction plans for all deficiencies, whether corrected or outstanding;
- summary and analysis of all enforcement actions during the past 3 years resulting from a state survey inspection (such as a probationary license or ban on admissions), together with a summary and analysis of any remedial plan of action;
- photocopies of all regulatory permits, licenses, and certificates;
- state staffing requirements;
- summary of the status of any federal, state, or local proposed regulations (or amendments to existing regulations) that could affect the Property or any aspect of the Seniors Housing industry;
- summary of the regulatory and licensing procedures required to change Property ownership, any service provider, the authority to operate, or the management of the Property, and this summary must

    - identify the changes that require advance notice and/or prior approval from the relevant government authority, and
    - describe any advance notice requirements, such as timing, required recipients, and required notice content;
- if the Borrower or Seniors Housing Operator participates in
    - the state's Medicaid waiver program, or
    - another third-party subsidy program,
    - an assessment of the risk to the Property's operations if the program is discontinued;
- identification and analysis of any special insurance requirements of government authorities (such as workers compensation insurance or medical director professional liability insurance);
- copies of the sources and references used to complete this report; and
- overall assessment of regulatory matters affecting the Property, including an analysis and detailed recommendations for any other matters material to the ownership, operation, or management of the Property.

Chapter 6 Manufactured Housing Communities

Section 601 Description

Requirements

An MH Community is a residential real estate development with lots on which Manufactured Homes are located, together with amenities, utility services, landscaping, roads, and other infrastructure.

Section 602 Lender Eligibility

Requirements

You must be approved in writing to Deliver MH Community Mortgage Loans.

Section 603 Legal and Property Compliance

603.01 Borrower and the MH Community

603.01A Borrower Ownership

Requirements

If the Borrower is a non-profit entity, then you must ensure that each of the following complies with Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals:

- the Borrower;
- Key Principals;
- Guarantors; and
- Principals.

Guidance

If the Borrower is a non-profit entity, you may reimburse the Borrower from the Origination Fee for up to a combined total of $10,000 for the cost of any required MH Community Mortgage Loan third-party reports (e.g., Appraisal, Environmental Site Assessment).

Operating Procedures

Fannie Mae will reimburse the cost of any third-party report within 2 months after the delivery of the Mortgage Loan. To receive reimbursement, you must:

- request an invoice from the vendor with the report cost listed as a separate line item from any ancillary charges (Fannie Mae will not reimburse other costs such as fees for expediting a report);
- within 1 month after the Mortgage Loan Origination Date:
  - complete Form 4829, detailing the Lender's information, the commitment number or loan number, Property information, wiring instructions, and listing the third-party cost as "Other" (note that any fields related to servicing may be left blank); and
  - manually sign or e-sign Form 4829, scan or save it as a PDF file, and email the signed PDF Form 4829 and the third-party report invoice to: mhc_report_reimbursement@fanniemae.com.

603.01B Collateral; Tenant-Occupied and Affiliate-Owned Homes

Requirements

The collateral for an MH Community Mortgage Loan consists of

- the MH Community's land and infrastructure,
- the rents for the MH Sites, and
- any other Borrower-owned property used for the MH Community.

The percentage of tenant-occupied Manufactured Homes must not exceed 35%. If the percentage of tenant-occupied Manufactured Homes is greater than 25%, then:

- the Borrower's business plan must reflect the conversion of tenant-occupied Manufactured Homes to owner-occupied over time; and
- ongoing business related to the sale, financing, or rental of a Manufactured Home located on the Property must be performed by an Affiliate.

If any Affiliate-Owned Manufactured Homes are leased to tenants by an Affiliate of either the Borrower or a Key Principal, then:

- The MH Site lease must be at a market rate rent.
- If the tenant's rent payment includes both the rent for the Affiliate-Owned Manufactured Home and the rent for the MH Site, then either:

- the check must be payable to and deposited by the Borrower, which must pay all required P&I, and escrows before remitting the rent payment to the Affiliate; or
- you must consider whether it is appropriate to require a lockbox arrangement with the Borrower and the Affiliate
  - into which all rent checks for the Manufactured Homes and MH Sites must be deposited, and
  - from which you can control the disbursement of funds for P&I, required escrows, and the Manufactured Home rentals, with the remainder disbursed to the Borrower.

603.01C MH Community

Requirements

An eligible MH Community must:

- have a minimum of 50 MH Sites;
- consist of contiguous parcels or, if the MH Community is made up of Non-Contiguous Parcels:
  - all parcels must be located within the same MSA; and
  - each separate parcel (individually), and all Non-Contiguous Parcels (together), must comply with the Guide; and
- achieve at least a Level 3 Quality Rating per the Manufactured Housing Community Quality Rating Standards table in Part III, Chapter 6: Manufactured Housing Communities, Section 603.02: MH Community Score.

An MH Community must be served by either

- public underground utilities, or
- private sewage treatment plants, septic systems, and private water wells which are:
  - common for the market;
  - owned by the Borrower or an Affiliate; and
  - in compliance with all applicable government requirements.

Guidance

The Mortgage Loan may be secured by either an Age-Restricted MH Community or an All-Age MH Community.

You should consider the following:

- For an MH Community that is more than 25 years old, does the Borrower have a plan for placing new Manufactured Homes in the MH Community as MH Sites with older Manufactured Homes are vacated?
- Are the landscaping and entrance signage high quality and well maintained?
- For an MH Community served by a private sewage treatment plant, septic system, or a private water well, then:
    - Address the availability and cost of obtaining a backup source for water if the MH Community has a private water well.
    - Ensure that the operator of the facility, including its employees and contractors, meet all applicable government requirements to perform ongoing operation and maintenance.
    - If the operator is an employee of the Borrower, identify a local, qualified vendor that could be retained if substitute services are needed.
    - Exercise reasonable due diligence, including contacting municipal agencies, to confirm that
        - the MH Community's connection to a municipal system has not been mandated, and
        - no mandate is expected to occur during the term of the Mortgage Loan.
    - If hookup is imminent, determine if an escrow for the cost is appropriate.

603.02 MH Community Score

Requirements

You must determine the MH Community Score using the MH Community Quality Rating Standards table. The overall MH Community Quality Rating is based on the lowest rating for any 1 characteristic.

The MH Community must:

- meet a Level 3 Quality Rating; or
- achieve most of the minimum Quality Rating characteristics and either
  - the unsatisfactory characteristics are not materially detrimental to the performance, overall appearance, desirability, and quality of the MH Community, or
  - any failed characteristic must be remediated as a Completion/Repair item.

Manufactured Housing Community Quality Rating Standards			
Characteristic	Level 3 Quality Rating	Level 4 Quality Rating	Level 5 Quality Rating
	Minimum Standard	Minimum Standard applies (except as detailed)	Level 4 applies (except as detailed)
Streets	Paved Roads.	Same as Level 3.	Rolled curbs (if warranted by layout/drainage needs).

Home Sites	• Area under the Manufactured Homes consists of concrete, crushed rock, or dirt. • Entry to the Manufactured Homes is through a patio or porch. • Manufactured Homes are supported by stacks of hollow concrete block or steel pier systems along the main beams (with ground anchors and steel straps holding the frame against movement) that meet local and state requirements.	Same as Level 3 with at least 60% of MH Sites having commercial grade porch/cabanas or patios.	Same as Level 3 with all MH Sites having commercial grade porch/cabanas or patios.
Site Size	Preference for 50% doublewide MH Sites, however you have delegated discretion on the percentage of doublewide sites as long as the MH Community is competitive with a clear market demand for singlewide MH Sites.	Same as Level 3.	Minimum 50% doublewide MH Sites.

Density	Density reflects the norm for the Property market. Generally, maximum density is 12 MH Sites per acre, however you have delegated discretion to determine the typical density in your market.	Density reflects the norm for the Property market. Generally, maximum density is 7 MH Sites per acre, or 10 MH Sites per acre if developed before 2000.	Same as Level 4.
Skirts/Hitches	100% of the Manufactured Homes are professionally skirted, with hitches covered or removed. You can meet this requirement through a Completion/Repair Schedule.	Same as Level 3.	All of the Manufactured Homes are professionally skirted, with hitches removed.
Parking	Minimum of 2 on- or off-street parking spaces per MH Site that are properly maintained, paved, concrete, or gravel (if common in the market). You have delegated discretion to determine compliance based on prevailing market conditions, subject to local ordinances.	Same as Level 3.	2 paved off-street parking spaces per MH Site.

Amenities	Not required, but amenity package should be competitive based on market comparables.	Competitive amenity package required.	High quality amenity package competitive with other high-quality MH Communities.

603.03 Code Standards

Requirements

You must:

- determine if all Manufactured Homes in the MH Community meet the requirements of the Manufactured Home HUD Code; and
- ensure the Loan Documents require Borrower certification that no additional Manufactured Homes predating the Manufactured Home HUD Code will be added to the MH Community during the Mortgage Loan term.

Guidance

Fannie Mae may allow Manufactured Homes predating the Manufactured Home HUD Code if

- they are Borrower-owned Manufactured Homes or Affiliate-Owned Homes that comply with local codes with no identified life safety issues, and
- you document the number of Manufactured Homes predating the Manufactured Home HUD Code.

Fannie Mae may allow rental units that do not comply with the Manufactured Home HUD Code (e.g., certain park model recreational vehicles) if the rental income is included as commercial income in Part III, Chapter 6: Manufactured Housing Communities, Section 606: Property Income and Underwritten NCF.

603.04 Flood Zone

603.04A Rising Water

Requirements

For an MH Community located in a flood zone with rising water (e.g., flood water that quickly dissipates and flood zone A or AE) you must ensure the Borrower notifies all Homeowners and all tenants of Borrower-owned or Affiliate-Owned Homes occupying an MH Site located in the flood zone before the Mortgage Loan Origination Date.

For Manufactured Homes located in a rising water flood zone...	
If you • do not know the base flood elevation for the flood zone (e.g., flood zone A), or • know that the living floor levels are below the base flood elevation	Then: • you must calculate the Underwritten DSCR excluding the site rent for Manufactured Homes with living floor levels within the flood zone; and • if the resulting Underwritten DSCR decreases to more than 10 basis points below the minimum Tier 2 standard, you cannot underwrite the site rent for those Manufactured Homes.

603.04B Moving Water

Requirements

For an MH Community located in a flood zone with the potential for flooding due to moving water (e.g., typically in flood zone A and AE and located next to a stream, river, etc.), you must ensure:

- your underwriting assumes that MH Sites located in the flood zone are considered non-income producing MH Sites; and
- the Borrower notifies all Homeowners and all tenants of Borrower-owned or Affiliate-Owned Homes occupying an MH Site located in the flood zone before the Mortgage Loan Origination Date.

603.05 Lease Terms

603.05A Master Leases

Requirements

You must ensure there are no master lease arrangements affecting any of the MH Sites.

603.05B MH Site Leases

Requirements

MH Site Leases must

- be in writing, and
- not contain an option to purchase the MH Site.

The Borrower must agree to implement the Tenant Site Lease Protections for all MH Sites by the end of the first loan year.

Operating Procedures

The Tenant Site Lease Protections may be incorporated

- by amending each MH Site Lease; or
- within the MH Community's rules and regulations, if the MH Site Lease incorporates the rules and regulations by reference.

The Multifamily Loan Agreement must include a:

- covenant to implement the Tenant Site Lease Protections by the end of the first loan year;
- requirement that, if the Tenant Site Lease Protections were implemented within the MH Community's rules and regulations:
    - the rules and regulations are publicly posted; and
    - each lessee of an MH Site Lease receives written notice of the Tenant Site Lease Protections; and
- Borrower:
    - representation stating the percentage of MH Site Leases with the Tenant Site Lease Protections;
    - covenant to continue the Tenant Site Lease Protections over the entire Mortgage Loan term; and
    - requirement to annually submit to you a:
        - certified copy of the MH Community's current Rules and Regulations;
        - certified copy of the notice sent to all MH Site Lease tenants if the Tenant Site Lease Protections were implemented by the Rules and Regulations;

- certified copy of the current form of Residential Leases for MH Sites;
- copy of any requested MH Site Leases; and
- certification of the percentage of MH Site Leases with the Tenant Site Lease Protections.

Guidance

You may allow

- month-to-month lease terms,
- lease terms for up to 2 years, and
- lease terms longer than 2 years, but only if the lease provides for:
  - an annual rent increase sufficient to cover the current and/or projected Consumer Price Index (CPI);
  - the pass-through of real estate taxes over a base year;
  - the pass-through of any utilities provided by the Borrower; and
  - cannot result in the Manufactured Home on the MH Site being titled as real estate.

603.05C Loan Document Modification

Requirements

You must modify the Loan Documents to reflect the use of short-term or long-term leases.

Section 604 Property Insurance

Requirements

You must ensure that the security for an MH Community Mortgage Loan (per Part III, Chapter 6: Manufactured Housing Communities, Section 603.01B: Collateral; Tenant-Occupied and Affiliate-Owned Homes) complies with Part II, Chapter 5: Property and Liability Insurance.

Section 605 Survey

Requirements

If you obtain an acceptable as-built survey of the Property, it must comply with Part II, Chapter 3: Legal Compliance, Section 305: Survey.

Guidance

You should ensure that the survey only shows the location or dimensions of

- the individual MH Sites,
- any individual Manufactured Homes or recreational vehicles, and/or
- the related MH Site or recreational vehicle site, piers, and/or foundations, that constitute encroachments.

605.01 Public Roadways, Private Interior Roadways, and Drives

Guidance

You should ensure that the survey accurately shows all public roadways.

For any private interior access roads, streets, drives, parking areas, visible utilities, and structures without foundations, the survey:

- does not need to show them accurately from field measurements, unless they constitute encroachments;
- should include a sketch showing their approximate location; and
- may locate them by photogrammetric or other approximate methods.

605.02 Setbacks

Guidance

You should identify and show 2 different types of setbacks on the survey:

- setback restrictions shown in documents of record; and
- setbacks imposed by applicable zoning ordinances or building codes.

You should ensure that the survey:

- states that the zoning setbacks apply only to permanent buildings and not to the Manufactured Homes; and

- includes recorded references or citations to authority for the zoning setbacks, or gives the reason why this information is not available.

605.03 Encroachments

Guidance

You may show the following encroachments by a simple indicating mark (i.e., a distinctive mark or symbol identified in the legend), without indicating dimensions:

- nonpermanent outbuildings or other structures; and
- recreational vehicles that are not set upon a supporting foundation, MH Site, or pier.

Section 606 Property Income and Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF.

REQUIRED UNDERWRITTEN NCF (MANUFACTURED HOUSING COMMUNITY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME[1] – actual MH Site rents in place where Manufactured Homes are installed under leases with residents in occupancy, plus market rents for vacant MH Sites and MH Sites with vacant Manufactured Homes based on a current rent roll (multiplied by 12).
2	PLUS	To the extent deducted as an operating expense, MH Site rents for other non-revenue MH Sites, such as: • MH Sites with model Manufactured Homes deducted in the “model apartment” operating expense in the “general and administrative” category; and • actual MH Site rent from employee Manufactured Homes deducted in the “employee” operating expense in the “payroll and benefits” category.
	EQUALS	GROSS POTENTIAL RENT (GPR)

3	MINUS	Physical vacancy[2] – • market rents for vacant MH Sites based on a current rent roll (multiplied by 12); and • net rental collections for occupied MH Sites where the Manufactured Home is vacant, and the MH Site rent is paid by the MH Community owner, prior occupants, or a third party (e.g., a retail creditor).
4	MINUS	Concessions – the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.[2]
5	MINUS	Bad debt – the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.[2]
	EQUALS	NET RENTAL INCOME (NRI)[3,4]
1 Includes the MH Site rent for any Affiliate-Owned Manufactured Home or Borrower-owned Manufactured Homes, but excludes the rent (or that portion of the rent) for the Manufactured Home. 2 The total of Items 3, 4, and 5 must equal the greater of • the difference between the trailing 3-month net rental collections (annualized) and GPR, or • 5% of GPR. If a rent increase with verified actual collections was instituted within the trailing 3 months, then NRI may be calculated based on the trailing 1-month net rental collections (annualized). 3 If NRI is greater than the trailing 1-month of actual NRI (annualized), then reduce to actual NRI. 4 You must assess any decline in NRI per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis, and adjust Underwritten NRI as required.		
CALCULATION OF OTHER INCOME		
6	PLUS	Actual other income generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. You must assess the individual month's other income 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 other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.
7	PLUS	For RV Sites with lease terms of 30 days or more, the lesser of • actual average net collections for the past 3 years, or • the current trailing 12-month RV Site rents, minus a 10% vacancy.[5]

CALCULATION OF COMMERCIAL INCOME[6]		
8	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.
9	PLUS	Actual average RV Site rental income for RV Sites with lease terms of less than 30 days.
10	PLUS	Actual MH Site rental income for Manufactured Homes that predate the Manufactured Home HUD Code .
11	MINUS	10% of the actual commercial space income (total of Items 8, 9, and 10).
12	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.[6]
5 If the average RV Site rental income for RV Sites with lease terms of 30 days or more is greater than 20% of EGI, then reduce to 20% of EGI. 6 If net commercial income is greater than 10% of EGI, then reduce to 10% of EGI. Additionally, total RV Site income from Items 7 and 9 (less 10% vacancy) cannot exceed 20% of EGI.		
13	PLUS	Laundry and, vending, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		
14	MINUS	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 operating expenses must not be included. You must assess: • past operating history; • the Appraiser's expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrower's budget (in the case of an acquisition). You must: • analyze historical operations at the Property; and • apply an appropriate increase over the prior year's operations in determining an estimate.

15	MINUS	Property management fee equal to the greatest of: • 3% of EGI; • actual property management fee ~~(exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan~~, provided you~~); or~~ - exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan, and - include any known contractual fee increases occurring over the next 24 months; or • Appraiser's concluded market property management fee.

16	MINUS	Real estate taxes based on the greatest of: • actual future tax bill(s) covering a full calendar year; • ~~prior full year’s taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or~~ • prior full year’s taxes multiplied by 103%; or • in California, the sum of: - any special assessments; plus - the millage rate multiplied by the greater of the ▪ Mortgage Loan amount, or ▪ assessed value. You must, for: • ~~consider any automatic reassessment upon acquisition in the next 12-month period;~~ • ~~include ad valorum taxes for Borrower-owned Manufactured Homes; and~~ • Borrower-owned Manufactured Homes, include ad valorum taxes; • ~~for~~ any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, ~~underwrite~~include fully assessed real estate taxes~~.~~; • any Property whose sale would trigger an automatic reassessment, include any expected increase; • any Property with an annual or scheduled reassessment within 12 months after the Mortgage Loan Origination Date, include any expected increase; and • all Properties: - use the most recently available assessed value (even if preliminary); and - do not use expected results from a protest, unless the protest is legally binding on the Borrower and taxing authority. If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must: • 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, deferral, or PILOT (i.e., it is tied to the Property and not the owner). If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider: • 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.

17	MINUS	Insurance ~~equal to:~~per Item 17(c) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF). • ~~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.~~
18	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
19	MINUS	Replacement Reserve expense per Part II, Chapter 4: Inspections and Reserves, Section 405: Replacement Reserve, with a minimum annual amount of $25 per MH Site.
	EQUALS	UNDERWRITTEN NCF

Section 607 Replacement Reserve

Requirements

If the Replacement Reserve determined by the Property Condition Assessment is more than $75 per MH Site, full funding of the Replacement Reserve is required per Part II, Chapter 4: Inspections and Reserves, Section 405: Replacement Reserve.

Chapter 7 Multifamily Affordable Housing Properties

Section 701 Generally

701.01 Description

Requirements

An MAH Property is a Property that is encumbered by a regulatory agreement, land use restriction agreement, extended use agreement, or similar restriction (an Affordable Regulatory Agreement) that

- limits rents that can be charged to tenants, or
- imposes income limits on tenants.

An Affordable Preservation Transaction is any transaction involving an MAH Property that:

- currently has rent or income restrictions meeting the eligibility criteria of an MAH Property, but the Property is potentially at risk of being lost from the affordable housing inventory through conversion to market-rate housing;
- is not receiving new LIHTCs; and
- is being acquired or refinanced, but excludes a Mortgage Loan paying off the initial construction loan.

701.02 Eligible Lenders

Requirements

You must be approved in writing to Deliver MAH Mortgage Loans.

Section 702 MAH Property Eligibility

702.01 Eligible Characteristics and Underwriting

Requirements

You must ensure that an MAH Property has rent or income restrictions that meet or exceed 1 of the following:

- **20% @ 50%:** at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 50% of AMI as adjusted for family size.

- **40% @ 60%:** at least 40% of all units have rent or income restrictions in place making them affordable to households earning no more than 60% of AMI as adjusted for family size (except for New York City, where at least 25% of all units have rent or income restrictions in place, making them affordable to households earning no more than 60% of AMI as adjusted for family size).
- **HAP contract:** at least 20% of all units are subject to a project-based HAP contract.
- **Special Public Purpose:** the Property
  - is subject to an Affordable Regulatory Agreement imposed by a government entity, containing other rent and/or income restrictions,
  - has rent or income restrictions that meet or exceed **20% @ 80%:** at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size, and
  - meets a noteworthy special public purpose.
- **Sponsor-Initiated Affordability:** the Borrower may voluntarily self-impose rent and income restrictions to preserve or create multifamily affordable housing. These restrictions must:
  - require the Property to have
    - rent and income restrictions that meet or exceed **20% @ 80%**: at least 20% of all units have rent and income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size, and
    - restricted unit rent limits not exceeding 30% of the adjusted AMI;
  - be placed on record against the Property by executing the Sponsor-Initiated Affordability Agreement (Form 6490);
  - be in place at the Property by the Mortgage Loan Origination Date;
  - require the Property to comply with the Sponsor-Initiated Affordability Agreement (Form 6490) within 12 months after the Mortgage Loan Origination Date;
  - remain in place during the Mortgage Loan term; and

- be certified annually by the Borrower and monitored by an Administering Agent for compliance with the Sponsor-Initiated Affordability Agreement (Form 6490).

Guidance

An MAH Property may also:

- be subject to FHA Risk Sharing;
- be financed using tax-exempt Bonds;
- receive LIHTCs under Section 42 of the Internal Revenue Code, and its related U.S. Treasury regulations;
- be subject to inclusionary zoning (e.g., targeting certain income levels or employees of certain firms or institutions, etc.) or resale restrictions; or
- receive other state, local or federal subsidies which are conditioned on the affordability of some or all of the units in the Property, including Rural Housing Service (RHS) Section 515 Loans, and Loans insured under Section 202 or Section 236 of the National Housing Act.

Requirements

You must:

- Reflect the impact of the rent or income restrictions in your underwriting.
- Maintain a copy of the applicable Affordable Regulatory Agreement or Property restrictions in your Servicing File.

Operating Procedures

For any Property with Sponsor-Initiated Affordability, the Borrower must execute the:

- Sponsor-Initiated Affordability Agreement (Form 6490); and
- Modifications to Multifamily Loan and Security Agreement (Sponsor-Initiated Affordability Restrictions) (Form 6271).

To commit and Deliver a Mortgage Loan that qualifies as Special Public

Purpose or Sponsor-Initiated Affordability, refer to:

- Multifamily Affordable Housing Property Definition – Special Public Purpose FAQs; and
- Sponsor-Initiated Affordability FAQs.

702.02 Ineligible Characteristics and Underwriting

Requirements

You must not underwrite or price the Property as an MAH Property if it has:

- less than 3 years of rent or income restrictions remaining on the Affordable Regulatory Agreement and is expected to transition to market rents during the term of the Mortgage Loan; or
- 3 or more years of LIHTC restrictions remaining, but the Borrower intends to enter into the Qualified Contract Process (per Section 42 of the Internal Revenue Code) within 3 years after the Mortgage Loan Origination Date.

Operating Procedures

If a Property will have existing rent, income, and/or occupancy restrictions when you Deliver the Mortgage Loan, you must indicate the "MAH type" in C&D under "Other Attributes", even if you cannot underwrite the Property as an MAH Property or Affordable Preservation Transaction per this Section 702.02: Ineligible Characteristics and Underwriting.

Section 703 Property Income and Underwriting

703.01 Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF.

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		

1		GROSS RENTAL INCOME – the least of: • rents permitted under any federal, state, or local subsidy program applicable to the Property, as adjusted for AMI, family size, and number of bedrooms in a unit, and reductions for the applicable utility allowances[1]; • rents permitted under any restrictive covenants, subordinate financing requirements, or an Affordable Regulatory Agreement recorded on the Property; or • based on a current rent roll, - actual rents in place for occupied units, plus - for vacant units, the lowest of: ▪ actual rents in place for comparable occupied units; ▪ market rents; and ▪ permitted rents, described above (multiplied by 12).[2] Rent from non-project based Housing Choice Vouchers must not exceed the average rent for comparable units without non-project based Housing Choice Vouchers. You must include incremental HAP contract income per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 707.01: Properties with Both HAP Contracts and LIHTC Units.
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)[1]
3	MINUS	Physical vacancy – applicable actual rents for vacant units and MAH unit type (e.g., 20% @ 50%, 40% @ 60%, or HAP contract) based on a current rent roll (multiplied by 12).[3]
4	MINUS	Concessions – the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.~~).~~[3]
5	MINUS	Bad debt – the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.[3]
	EQUALS	NET RENTAL INCOME (NRI)[2, 3, 4]

1 For Properties with HAP contracts, you

- may use newly approved rents if they are effective by the first day of the month after the Mortgage Loan Origination Date, even if the rents exceed trailing GPR, but
- may not use rents based on
  - an agreement to enter into a HAP contract (AHAP),
  - commitment to enter into a Housing Assistance Payment contract (CHAP), or
  - a "comfort letter".

2 You may underwrite HAP contract rents up to:

- 5% above market rents if the MAH Property is located in an Eligible MSA; or
- 10% above market rents if the MAH Property is located in a Strong Market, provided the Property's
  - HAP contract expires after the Maturity Date, and
  - current and average 3-year physical occupancy is greater than or equal to 95%.

3 The total of Items 3, 4, and 5 must equal the greater of

- the GPR including any permitted HAP contract rent increases multiplied by the percentage difference between
  - the trailing 3-month net rental collections (annualized), and
  - trailing GPR excluding any HAP contract rent increases not in effect before the Mortgage Loan Origination Date; and
- either
  - 5% of GPR, including any permitted HAP contract rent increases, or
  - 3% of GPR, including any permitted HAP contract rent increases, if:
    - the Property is located in a Strong or Nationwide Market per Form 4660;
    - for a Property without a HAP contract, the actual rents for restricted units are at least 10% below comparable market rents; and
    - the economic vacancy (i.e., the total of Items 3, 4, and 5) is supported by current and 3 years of historical economic vacancy data.

4 You must assess the NRI, including any declines, and make adjustments per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.

CALCULATION OF OTHER INCOME[5]

6	PLUS	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. You must assess the individual month's other income 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 other income that exceeds the trailing 3-month other income (annualized), provided it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.
5 If premiums or corporate premiums are applicable for a particular MAH Property, inclusion of premium income is permitted consistent with Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.		
CALCULATION OF COMMERCIAL INCOME		
7	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.
8	PLUS	Actual income from STR units.
9	MINUS	10% of the actual commercial space income.[6]
10	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.[6]
11	PLUS	Laundry and vending, parking, and all other income per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.
6 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		

12	MINUS	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 operating expenses must not be included. You must assess: • the past operating history; • the Appraiser's expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrower's budget (in the case of an acquisition). You must: • analyze historical operations at the Property; • apply an appropriate increase over the prior year's operations in determining an estimate; and • include all STR-related expenses n their respective expense line items, including - cleaning, - furnishing, and - repairs.
13	MINUS	Property management fee equal to the greatest of: • 4% of EGI[7]; • actual property management fee~~ (exclude any portion of a non-arm's-length property management fee that is subordinated to the Mortgage Loan~~, provided you~~); or~~ - exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan, and - include any known contractual fee increases occurring over the next 24 months; or • Appraiser's concluded market property management fee.

<table>
<tr><td colspan="3">7 Minimum management fee may be 3.5% of EGI (rather than 4% of EGI) if the:
• underwritten management fee is at least $~~300~~400 per unit;
• actual management fee is equal to or less than the underwritten management fee (provided you exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan); and
• market management fees support the underwritten management fee for similarly sized MAH properties.
If the MAH Property is located in a Strong Market or Eligible MSA and the Mortgage Loan's original UPB is greater than $~~6~~9 million, the minimum management fee may be the greatest of
• 2.5%,
• $~~300~~500 per unit,
• the actual management fee, or
• market management fees for similarly sized MAH properties.</td></tr>
<tr><td>14</td><td>MINUS</td><td>Real estate taxes based on the greatest of:
• actual future tax bill(s) covering a full calendar year;
• ~~prior full year's taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or~~
• prior full year's taxes multiplied by 103%; or
• in California, the sum of:
- any special assessments; plus
- the millage rate multiplied by the greater of the
▪ Mortgage Loan amount, or
▪ assessed value.
You must:
• consider any automatic reassessment upon acquisition in the next 12-month period; and
• for any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, underwrite fully assessed real estate taxes.</td></tr>
</table>

14 continued	MINUS	If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must: • be in effect at closing (or at conversion in the case of a Forward Commitment), per written documentation from the state or local tax assessor; • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, deferral, or PILOT as long as the rent, income, or other restrictions are maintained (i.e., it is tied to the Property and not the owner); and • if governed under the California Welfare Tax Exemption Program, meet the following: - if a refinance, the Borrower must be in and remain in compliance with the California Welfare Tax Exemption program; or - if an acquisition or a Transfer/Assumption where the Affiliate with Control of the Borrower (which is typically a non-profit entity), or the non-profit entity itself, is changing you must: ▪ escrow at least 6 months of full real estate taxes at closing which will be released after confirming that the California Welfare Tax Abatement is approved and in place at the Property; ▪ ensure that the Borrower has demonstrated experience with the California Welfare Tax Abatement Program; and ▪ ensure that the Borrower is and remains eligible for the California Welfare Tax Abatement Program.

14 continued	MINUS	If governed under the Florida affordable housing property exemption (per Sections 196.1978(1) and (2) of the Florida Statutes), • for a refinance, the Borrower must initially be in compliance, and remain in compliance, with the Florida affordable housing property exemption; or • for an acquisition or a Transfer/Assumption, you must: - confirm the Borrower applies to the county taxing authority within 60 days after the Mortgage Loan Origination Date; - escrow full taxes until you confirm the Florida affordable housing property exemption is approved and in place at the Property; and - after confirmation, refund the escrowed taxes to the Borrower. If the Property benefits from real estate tax abatements, exemptions, deferrals, or a PILOT that will not survive a Foreclosure Event, then you may use a reduced real estate tax payment only if: • upon reapplying for the original underwritten tax abatement or an alternative tax abatement, Fannie Mae or a subsequent Property owner would qualify for the tax abatement; • the rent or income restrictions at the Property are maintained; and • you have ensured that: - if a qualified non-profit entity is required to participate in the ownership structure of the MAH Property in order to qualify for the tax abatement, exemption, or deferral, a sufficient number of qualified non-profits currently operate in the market (at least 3 for an MSA with a population of less than 1 million and at least 5 for an MSA with a population of 1 million or greater), and in the event of a foreclosure, could serve in the replacement ownership structure to qualify for the tax abatement, exemption, deferral, or PILOT; and - the original or alternative tax abatement, exemption, deferral, or PILOT has ▪ been established in the state's statutes, ▪ been in effect for at least 10 years, and ▪ the Lender conducted all appropriate due diligence and confirmed that there is no material risk that the tax abatement, exemption, or deferral legislation will be repealed or revised in a manner that would affect the Property's ability to continue to qualify for the tax abatement, exemption, deferral, or PILOT.

14 continued	MINUS	If the timeframe for the real estate tax abatement, exemption, deferral, or PILOT is shorter than the Mortgage Loan term, or begins phasing out or expires within 5 years after the Maturity Date, you must consider: • 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. For a Property with a tax abatement, the Modifications to Multifamily Loan and Security Agreement (Tax Abatement or Exemption) (Form 6251) must be executed even if you do not underwrite the tax abatement.
15	MINUS	Insurance ~~equal to:~~per Item 17(c) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF). • ~~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 of less than 6 months.~~
16	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
17	MINUS	Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
	EQUALS	UNDERWRITTEN NCF

703.02 Underwriting

703.02A Appraised Value and Underwriting Value

Requirements

In addition to the Appraisal requirements in Part II, Chapter 2: Valuation and Income, Section 202: Appraisal and Valuation, you must:

- Include 2 separate opinions of the Appraised Value based on:

- Restricted Value from the Affordable Regulatory Agreement, using
  - comparable multifamily rental properties,
  - the Property's submarket,
  - properties with similar rent or income restrictions, and
  - any tax abatements or exemptions.
- Unrestricted Value from the Property's income and expenses without the Affordable Regulatory Agreement (e.g., market rents, occupancy, and operating expenses), using
  - comparable multifamily market rate rental properties,
  - the Property's submarket, and
  - full taxes if rental income restrictions are required by a tax abatement or exemption.

- Ensure that each Appraised Value is based on a market cap rate without any upward or downward adjustment for:
  - special financing (other than adjusted cap rates for Credit Enhancement Mortgage Loans); or
  - tax credit benefits.
- Determine the appropriate Appraised Value for the Underwriting Value per Part II, Chapter 2: Valuation and Income, Section 202: Appraisal and Valuation.

703.02B Market Study

☑ Requirements

If the Property is subject to a HAP contract that will expire before the Mortgage Loan Maturity Date, you must include a market study (which can be part of the Appraisal) that:

- is prepared by a qualified real estate professional; and
- identifies the absorption rate, lease-up period, and rent level for comparable market rate rental properties in the submarket.

703.02C Affordable Regulatory Agreement Restrictions

Guidance

To underwrite the Mortgage Loan as an MAH Property, the Affordable Regulatory Agreement restrictions should remain in effect for the term of the Mortgage Loan.

Requirements

When the Affordable Regulatory Agreement restrictions have 3 or more years remaining but will expire before the Mortgage Loan Maturity Date, you must provide support to underwrite to the MAH Preservation standards in the Form 4660, taking into account factors such as:

- restricted rents below market rate rents;
- the Property's history of operating as an MAH Property;
- the Borrower's history and experience owning and operating MAH Properties;
- the Borrower's intention to renew the Affordable Regulatory Agreement;
- the amount of time between the Maturity Date and when the Affordable Regulatory Agreement restrictions expire;
- market strength; and
- how the Property compares to comparable market rate properties in terms of occupancy, condition, and amenities if the Borrower intends to convert the Property to market rate rents and if no rent advantage exists.

See Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 702.01: Eligible Characteristics and Underwriting regarding self-imposed restrictions.

703.02D 35-Year Amortization

Requirements

If you use a 35-year amortization term, the:

- Property must have LIHTCs with at least 8 years remaining in the initial 15-year compliance period; and
- minimum MAH Mortgage Loan term must equal the greater of
  - the remaining initial compliance period, and

- 10 years.

703.02E LIHTC Income Averaging

Guidance

When a Sponsor elects LIHTC Income Averaging for a Property with new LIHTCs, you should consider:

- Will LIHTC Income Averaging impact other non-LIHTC regulatory agreements?
- Is LIHTC Income Averaging compatible with other funding and subsidy source requirements, including any project-based HAP contract?
- Has LIHTC Income Averaging been approved by the
  - state agency, and
  - LIHTC investor or syndicator?
- Will the on-site Property management staff have sufficient experience?
- Will the unit mix be impacted, including
  - unit parity,
  - multi-building election,
  - floating units, and
  - market rate units?
- What is the rent advantage, especially for units above 60% of AMI?
- For a Forward Commitment,
  - is the Property not a resyndication of a property previously developed or preserved using LIHTCs and subject to an existing extended use agreement, or
  - if the Property is a resyndication, have you confirmed the property has completed its extended use period?
- Does the market study include capture rates for each unit designation supporting LIHTC Income Averaging?

Requirements

You must identify and mitigate any risks from electing LIHTC Income Averaging.

703.02F Initial LIHTC Equity

Requirements

For any MAH Property with new LIHTCs, you must ensure at least 20% of the aggregate LIHTC equity that the LIHTC investor or syndicator must contribute into the limited partnership is received on or before the Mortgage Loan Origination Date.

703.02G Developer Fees

Guidance

You should analyze the development budget, including the

- developer fee due the Sponsor or any Affiliate, and
- any deferred developer fee (i.e., the portion of the developer fee shown as a source in the sources and uses statement).

If the deferred developer fee is greater than 50% of the total developer fee, you should confirm there are sufficient

- hard and soft contingency budgets, and
- projected surplus cash flows to repay the deferred developer fee within the initial compliance period.

703.02H Rent-Stabilized Units

Guidance

Refer to Part II, Chapter 2: Valuation and Income, Section 207: Rent-Stabilized Properties regarding rent-stabilized MAH Property units.

Section 704 Subordinate Financing

704.01 Interest Rate and Payments

Requirements

You must ensure any subordinate loan:

- has a fixed rate; and
- any non-Soft Financing has:
  - interest payable on a current basis; and
  - no deferrals or accruals.

704.02 Loan Term

Requirements

You must ensure any non-fully amortizing subordinate loan, including any Soft Financing, matures at least 180 days after the Maturity Date of the Mortgage Loan and any Pre-Existing Mortgage Loans.

Guidance

A fully amortizing subordinate loan may mature at any time regardless of the Mortgage Loan Maturity Date. A subordinate loan may also be fully or partially forgiven at any time per its loan documents.

704.03 Collateral and Credit Support

Requirements

You must ensure the Mortgage Loan obtains the same credit support and collateral as any subordinate loan, including any

- recourse to the Borrower or any guarantor, or
- additional collateral.

You may secure the subordinate loan with a Lien on the Property if the Lien:

- is subordinated to the Security Instrument's Lien per
  - Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.07: Subordination Agreement,
  - Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.08: Lien Priority and Title Insurance Policy, and
  - Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.09: Form of Subordinate Loan Documents; and
- includes only the same collateral covered by the Mortgage Loan's

Security Instrument.

704.04 Soft Financing

Requirements

Provision	To be considered Soft Financing...
Financing Terms	Subordinate loan terms must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.
Payments	• Any subordinate loan payments due during the Mortgage Loan term, including any fees, must be payable only from the surplus NCF remaining after all other payments (due and owing) are made on the Mortgage Loan or any Pre-Existing Mortgage Loans. • No more than 75% of the surplus NCF must be available for payments on all Soft Financing unless the note is payable to the Sponsor or an Affiliate.
Events of Default	Failure to pay principal and/or interest due to lack of surplus NCF must not be an event of default.
Subordination	Subordination must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.07: Subordination Agreement.

Guidance

Soft Financing may have:

- a nominal interest rate (e.g., 1% or 2%);
- interest that does not accrue;
- principal payments that do not fully amortize the subordinate loan over its term; or
- a loan term significantly longer than the Mortgage Loan term, with the subordinate loan either
  - being forgiven over time or at its maturity date, or
  - due only upon the sale of the Property.

704.05 Subordinate Lender

Requirements

If the Lender type is...	Then...
Public / Quasi-Public / Not-for-Profit Lender	A subordinate loan provided by a public, quasi-public, or not-for-profit Lender may • be Soft Financing, or • require mandatory payments of P&I, or interest-only.
Private Lender	You must ensure that any subordinate financing originated by a private, for-profit Lender is Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.04: Soft Financing.

704.06 Developer's Notes

Requirements

You must ensure any developer note or advance due the Sponsor or an Affiliate is Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.04: Soft Financing.

704.07 Subordination Agreement

Requirements

For all subordinate financing, including Soft Financing, you, the Borrower, and the subordinate Lender must enter into either:

- Fannie Mae form Subordination Agreement (Affordable) (Form 6456), if the subordinate Lender is a government entity; or
- Fannie Mae form Subordination Agreement (Conventional) (Form 6414), if the subordinate Lender is not a government entity.

704.08 Lien Priority and Title Insurance Policy

Requirements

You must ensure:

- The subordinate loan, along with any Lien securing the subordinate loan, remains at all times, subordinate to the Security Instrument's Lien, including any refinancing.
- The Subordination Agreement is recorded in the land records immediately after the subordinate security instrument is recorded.
- The lender's title insurance policy reflects the recordation of the Subordination Agreement.

704.09 Form of Subordinate Loan Documents

Requirements

You must confirm that the subordinate loan documents:

- comply with this Chapter;
- include the specific provisions required by the Subordination Agreement; and
- do not require the Borrower to maximize rents at the Property (even if the Property is subject to an Affordable Regulatory Agreement).

704.10 Prepayment

Requirements

The Borrower may not prepay or redeem the subordinate loan without Fannie Mae’s consent.

704.11 LIHTC Equity Bridge Loans

Requirements

LIHTC Equity Bridge Loan	Requirements
Lender Eligibility	The LIHTC equity bridge lender must not be on ACheck.
Repayment	Must be completely repaid on or before the final LIHTC equity payment associated with the Property's placed-in-service date.

LIHTC Equity Bridge Loan	Requirements
Amount	Maximum of 80% of aggregate LIHTC equity contribution.
Funding Conditions	No performance hurdles or Property performance benchmarks tied to bridge loan payments.
Note	• Non-recourse to Borrower. • Fixed or variable rate.
Guaranty (Repayment or Completion)	Must be subordinated to any Guaranty in favor of Fannie Mae.

Bridge Loan Collateral Types (multiple types allowed)	Bridge Lender Affiliated with You or LIHTC Investor	Bridge Lender Unaffiliated with You, LIHTC Investor, or Sponsor	Bridge Lender Affiliated with Sponsor
Assignment of Rights to Capital Contribution from LIHTC Equity Investor	Acceptable	Acceptable	Unacceptable
Assignment of Development Fee	Acceptable	Acceptable	Acceptable
Subordinate Security Instrument	Unacceptable	Unacceptable	Unacceptable

Bridge Loan Collateral Types (multiple types allowed)	Bridge Lender Affiliated with You or LIHTC Investor	Bridge Lender Unaffiliated with You, LIHTC Investor, or Sponsor	Bridge Lender Affiliated with Sponsor
Assignment of General or Limited Partnership Interests	Acceptable if Bridge Lender has LIHTC experience	Acceptable if Bridge Lender has LIHTC experience	• Acceptable for general partnership Interests • Unacceptable for limited partnership Interests
Subordination Agreement	Conventional Form	Conventional Form	Affordable Form

Section 705 Restrictive Covenants and Affordable Regulatory Agreements

Requirements

For MAH Properties and non-MAH Properties, the Affordable Regulatory Agreement, except for a HUD Use Agreement, must be subordinated to the Lien of the Security Instrument if the agreement:

- grants rights, remedies, or powers similar to that of a secured creditor to any aggrieved party;
- impairs the Lien rights or priority of the Lien of the Security Instrument;
- contains any Borrower obligations other than the affordability restrictions;
- contains any rights or remedies to enforce the affordability restrictions other than specific performance or injunctive relief; or
- does not terminate upon Mortgage Loan foreclosure.

To subordinate the Affordable Regulatory Agreement to the Security Instrument Lien

- use an approved Subordination Agreement, or

- for an Affordable Regulatory Agreement with a subordinate loan, use Subordination Agreement (Affordable) (Form 6456).

Guidance

The rights, remedies, and powers of a secured creditor would typically include:

- the ability to appoint a receiver;
- the right to collect rents directly from the mortgaged property;
- the right to take possession of the mortgaged property;
- limitations on transferring title to you or to a subsequent transferee by foreclosure or deed in lieu;
- no requirement to give you notice of violations of or amendments to the Affordable Regulatory Agreement; and
- the ability to remove or replace the Property manager without your prior consent.

Section 706 ROAR Loan

706.01 Generally

Requirements

You must ensure any ROAR Loan:

- is a Mortgage Loan or Credit Enhancement Mortgage Loan using a Credit Enhancement Instrument;
- has a fixed rate;
- has a minimum Mortgage Loan amount of $5 million; and
- is secured by an MAH Property that:
  - currently has Stabilized Residential Occupancy, but will likely experience tenant displacement significant enough to lower the Underwritten DSCR, calculated using the Gross Note Rate, below the required DSCR set forth in Form 4660; and
  - will undergo repairs, replacements, or improvements costing $10,000 per unit or more (based on the total number of residential units at the Property), or qualifies as a Moderate Rehabilitation Property.

706.02 Timing

Requirements

Within 18 months after the Mortgage Loan Origination Date

- the ROAR Work must be completed, and
- Restabilized Residential Occupancy must be achieved.

706.03 General Underwriting

Guidance

In addition to complying with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans, you should also review and evaluate:

- the reasonableness of the estimated cost of the ROAR Work and the completion schedule;
- whether the ROAR Work can be completed and the Restabilized Residential Occupancy achieved within 18 months after the Mortgage Loan Origination Date;
- the Borrower's experience in developing or rehabilitating properties similar to the ROAR Property;
- the tenant relocation plan, including budget and schedule;
- the ROAR Work budget, including monthly sources and uses during the rehabilitation period;
- any construction risks;
- the LIHTC investors' financial strength, experience, and reputation; and
- the projected rent levels relative to market rents.

706.04 Additional Underwriting and Loan Documents

Requirements

You must underwrite the ROAR Loan per the following table.

Topic	Description
Underwritten NCF	GPR must comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF; Underwritten NCF can be based on the Restabilized Residential Occupancy and normalized operating expenses achievable within 18 months after the Mortgage Loan Origination Date.
Appraisal	The Appraisal must include an opinion of the Property's market value on both an “as is” and an “as completed” basis that incorporates the ROAR Work to be completed after the Mortgage Loan Origination Date.
Occupancy During ROAR Work	Physical Occupancy: minimum of 50%; and Economic Occupancy: minimum of 50%.
Minimum DSCR During ROAR Work	Using the ROAR Stressed NCF, actual fixed interest rate, and maximum loan amount based on the “as completed” value • 0.75 on an amortizing basis, or • 1.00 on an interest-only basis, if applicable.
Rehabilitation Reserve Agreement	Required.
Key Principal Guaranties	The Key Principal must execute a • Completion Guaranty (Form 6018), and • an operating deficit guaranty.

Topic	Description
Letter of Credit	Any Letter of Credit must: • comply with Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit; and • equal at least 125% of the difference between the maximum Mortgage Loan amount based on - the “as completed” value, and - the “as is” value.
Additional Credit Support	May be required.
Underwriting Fee	You must: • charge the Borrower an underwriting fee equal 3 basis points of the Mortgage Loan amount; and • pay that amount to Fannie Mae.

Section 707 HAP Contract Properties

707.01 Properties with Both HAP Contracts and LIHTC Units

☑ Requirements

For a Mortgage Loan secured by an MAH Property or a Credit Enhancement Mortgage Loan, if the Property has both HAP contracts and LIHTC units, you must underwrite the Mortgage Loan using 1 of the following options.

Choice	Requirements
Option 1	Underwrite the rents from HAP contract units using the lowest of • market rents, • HAP contract rents, and • applicable LIHTC rents. Applicable LIHTC rents are the lower of • maximum allowable LIHTC rents minus utility allowances, and • actual rents in place for occupied units subject to a LIHTC Affordable Regulatory Agreement.
Option 2	Underwrite the rents from HAP contract units using the additional income above the LIHTC rents (LIHTC overage) if: • at least 20% of the Property's units are subject to a project-based HAP contract; • the HAP contract rents are less than or equal to market rents; • the weighted average LIHTC unit rents are least 10% below market; • the MAH Property is located in a market or submarket with 90% or greater economic occupancy, both for market rate and MAH Properties; and • the Sponsor has experience and success owning and operating properties with HAP contracts. If the HAP contract expires before the Mortgage Loan Maturity Date, you must ensure the Property's Underwritten DSCR is greater than or equal to • 1.05 based on the LIHTC rents, and • 1.10 based on the LIHTC rents after the HAP contract expires.

707.02 Restabilization Reserve

☑ Requirements

For all Tier 2 and Tier 3 Mortgage Loans, you must establish a Restabilization Reserve for an MAH Property that has a HAP contract if the HAP contract term (excluding any annual or incremental government appropriation conditions) expires before the Mortgage Loan Maturity Date.

The Restabilization Reserve must:

- equal the monthly Mortgage Loan P&I, multiplied by the greater of
  - 6 months, or
  - the lease-up period determined by the market study per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.02B: Market Study; and
- remain in place until
  - the Property achieves underwritten occupancy for 90 days at market rate rents, or
  - the HAP contract is renewed with an expiration date after the Mortgage Loan Maturity Date.

You may eliminate the Restabilization Reserve if the:

- weighted average LIHTC unit rents are at least 10% below market;
- MAH Property is located in a market or submarket with 90% or greater economic occupancy, both for market rate and MAH Properties; and
- Sponsor has experience and success owning and operating properties with HAP contracts.

707.03 HAP Contract Review Sheet

☑ Requirements

Before you Deliver the Mortgage Loan, you must:

- complete the Section 8 Housing Assistance Payments (HAP) Contract Review Sheet and Certification (Form 6422); and
- confirm that all conditions for approval are met.

Section 708 Refinancing Section 236 Properties – IRP is Maintained

☑ Requirements

For Fannie Mae to consider the cash flow from an IRP, the Borrower must decouple the IRP from the existing Section 236 note and mortgage by

- prepaying the Section 236 Loan, and
- having the IRP transferred to a new Mortgage Loan (which will be then considered a Section 236 Loan for purposes of continuing the IRP).

708.01 No Additional Proceeds

☑ Requirements

If the Borrower is not seeking additional proceeds based on the IRP, you must exclude the amount of the IRP from the LTV and Underwritten DSCR.

708.02 Additional Proceeds from Mortgage Loan

☑ Requirements

If the Borrower is seeking additional proceeds from the Mortgage Loan based on the IRP, then you must ensure that:

- The Mortgage Loan has equal monthly payments of P&I.
- The portion of the Mortgage Loan sized based on the Underwritten NCF meets Fannie Mae's LTV and Underwritten DSCR requirements without considering the IRP cash flow.
- The portion of the Mortgage Loan sized based on the IRP cash flow has an Underwritten DSCR of at least 1.00.
- The financing structure reflects the remaining term of the IRP through a bifurcated note or amortization structure.

In a Forward Commitment transaction, if the IRP is decoupled from the original Section 236 Loan, you do not need to ensure principal amortization during the construction phase.

708.03 Additional Proceeds from Other Sources

☑ Requirements

If the Borrower is seeking additional proceeds from sources other than the Mortgage Loan based on the IRP, you must:

- factor the debt into the Property's overall LTV; and
- comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.

Section 709 LIHTC Properties – Lender Equity Interest

☑ Requirements

Fannie Mae will only purchase a Mortgage Loan secured by a LIHTC Property in which you are an equity investor (directly or indirectly) in the Borrower if the following conditions are met:

- Your equity interest in the Borrower is solely for obtaining the LIHTCs in the Property, and you have no
  - management authority for the Property, or
  - equity interest (other than the LIHTCs) in
    - the Borrower,
    - any Key Principal,
    - any Person holding a Controlling Interest in the Borrower or Key Principal,
    - any Principal, or
    - any Guarantor.
- You and the equity syndicator are organized to ensure independent analysis and decision making occurs in the
  - underwriting and approval of the debt,
  - equity investments, and
  - servicing of the Mortgage Loan.
- Your underwriting submission includes:
  - a description of the relationship among the
    - Lender,
    - Borrower, and

- applicable Lender Affiliate; and

- an organizational chart or diagram showing:
  - the complete Borrower ownership structure, including any Lender or Lender Affiliate equity interest; and
  - each entity's ownership interest.

Section 710 Transactions with Fannie Mae Debt and Equity Interests

710.01 Transactions Funded with Tax-Exempt Bond Proceeds

Requirements

If a Mortgage Loan will be funded with tax-exempt bond proceeds and the Property securing the Mortgage Loan qualifies for LIHTCs, you must confirm:

- If Fannie Mae owns or plans to acquire a direct or indirect equity interest in the Borrower, it does not own or intend to acquire an interest in the tax-exempt Bonds.
- If Fannie Mae owns or plans to acquire an interest in the tax-exempt Bonds, it does not own or intend to acquire a direct or indirect equity interest in the Borrower.

710.02 Fannie Mae Credit-Enhanced Tax-Exempt Bond Issuance

Requirements

You must confirm that if Fannie Mae credit enhances tax-exempt Bonds issued to fund a Mortgage Loan, it does not also own or intend to acquire a direct equity interest in the Borrower.

If Fannie Mae owns or intends to acquire an indirect equity interest in the Borrower through a fund, you must confirm:

- Fannie Mae’s indirect equity interest in the Borrower is less than 50%;
- in the case of a LIHTC transaction:
  - the IRS documentation filed in connection with the Bond issuance shows that none of the Bond proceeds were applied to pay any portion of Fannie Mae’s credit enhancement fee;

- the Bond issuer and the Borrower have either
  - entered into a LIHTC agreement that acknowledges Fannie Mae's equity interest, or
  - consented in writing to Fannie Mae's equity interest; and
- any required notices to the Borrower and the issuer under a LIHTC agreement have been provided; and

- in the case of a non-LIHTC transaction, the issuer and the Borrower have consented in writing to Fannie Mae's equity interest.

Section 711 FHA Risk Sharing

711.01 Description

Guidance

Fannie Mae and the HUD have a risk sharing agreement to share risk on Mortgage Loans for certain MAH transactions. HUD's risk sharing is in the form of mortgage insurance from FHA. HUD takes 50% of the risk of loss, and the remaining 50% of the loss is shared by you and Fannie Mae.

711.02 Eligibility

711.02A Borrowers, Key Principals, Guarantors, and Principals

Requirements

You must ensure that the Borrower (and each Key Principal, Guarantor, and Principal) is not on the most current "List of Parties Excluded from Federal Procurement or Nonprocurement Programs".

711.02B Generally

Requirements

You must ensure:

- All FHA Risk Sharing Mortgage Loans are fixed rate with no interest-only period.
- The minimum Mortgage Loan term is 15 years.
- The Property has an affordability restriction where

- at least 20% of the units are rent-restricted and occupied by families with incomes no more than 50% of AMI as adjusted for family size, or
- at least 40% (25% in New York City) of the units are rent-restricted and occupied by families with incomes no more than 60% of AMI as adjusted for family size.

- The residential unit's gross rent is restricted to no more than 30% of the unit's Imputed Income Limitation per Section 42 of the Internal Revenue Code.
- Rent, income, and/or occupancy restrictions are in effect for at least the term of the Mortgage Loan. For MAH Properties with remaining affordability restrictions of less than 18 years, the affordability restrictions will be considered senior to the Lien of the Mortgage Loan when enforcing restrictions.

Guidance

The Property is not located in:

- a 500-year floodplain and likely occupied by tenants who may not be sufficiently mobile to avoid injury or death during floods or storms;
- a Federal Emergency Management Agency-mapped Special Flood Hazard Area 100-year floodplain (except where no buildings or Improvements other than minor grubbing) will be in the floodplain and the floodplain area will be permanently dedicated to non-development;
- the Coastal Barrier Resources System per the Coastal Barrier Resources Act, 16.U.S.C.3501; and
- a Runway Clear Zone (at a civil airport) or Clear Zone (at a military airfield) if the Property is newly constructed or substantially rehabilitated.

711.02C Cash Out

Guidance

There is no limit on the amount of cash out in an FHA Risk Sharing transaction.

711.03 Mortgage Insurance Premium

Requirements

Your pricing for an FHA Risk Sharing Mortgage Loan must include a sufficient amount to pay the mortgage insurance premium due to FHA.

Guidance

Fannie Mae will make this FHA premium payment on or before its due date.

711.04 Subsidy Layering Review

Requirements

You must ensure the Borrower obtains a subsidy layering review when required by federal laws. FHA Risk Sharing Mortgage Loans are a source of federal government assistance.

Operating Procedures

After the subsidy layering review is complete, the applicable reviewing office will issue a certification to the Borrower stating the total amount of governmental assistance is not more than is necessary to provide affordable housing after taking into account other government assistance. You must receive the certification before

- Rate Lock, or
- obtaining a Commitment for a tax-exempt Bond transaction.

711.05 Lender FHA Risk Sharing Reserve and Loss Sharing Modifications

Operating Procedures

If a Mortgage Loan was approved for FHA Risk Sharing, you must indicate an "FHA risk sharing" Mortgage Loan Type on the Mortgage Loan Certificate (Form 6505).

Chapter 8 Cooperative Properties

Section 801 Description

Requirements

A Cooperative Property is a multifamily residential property owned by a Cooperative Organization.

Section 802 Eligible Mortgage Loans

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 for 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 an overall condition of 2 or better, as shown on the Comprehensive Assessment Addendum tab of 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 professional property management firm 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 firm 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.

Section 803 Underwriting

803.01 Financial Operation

Requirements

As part of your underwriting analysis, you must:

- Examine the year-to-date operational budget.
- Collect, review, and analyze audited financial/operating statements for the last 3 years of operations.
- Ensure that the average Cooperative Maintenance Fee Accounts Receivable for the last 3 years is less than 3% of the annual Cooperative Maintenance Fees.
- Ensure that the Cooperative Operating Reserve at closing is at least 10% of the annual Cooperative Maintenance Fees.

803.02 Property Valuation

Requirements

You must obtain an Appraisal per Part II, Chapter 2: Valuation and Income that provides a value of the Cooperative Property on a Cooperative Market Rental Basis for determining the LTV Ratio per Form 4660.

Guidance

You may obtain an Appraisal per Part II, Chapter 2: Valuation and Income that provides a value of the Cooperative Property on a Cooperative Gross Sellout Value basis.

803.03 Subordinate Debt

Requirements

You must ensure that any existing debt secured by a Lien on a Cooperative Property complies with Part III, Chapter 14: Supplemental Mortgage Loans, Section 1402: Supplemental Mortgage Loans. You must also calculate the

- Underwritten DSCR per Part III, Chapter 8: Cooperative Properties, Section 804.02: Cooperative Market Rental Basis DSCR (Underwritten DSCR), and
- Actual Cooperative DSCR per Part III, Chapter 8: Cooperative Properties, Section 804.04: Actual Cooperative Property DSCR.

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	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 • the actual note rate, or • the required Underwriting Interest Rate Floor per Form 4660. If the Property has subordinate debt, the debt service must include P&I to cover the maximum principal amount of the outstanding subordinate debt.

804.03 Actual Cooperative Property NCF

☑ Requirements

You must use the following table to calculate Actual Cooperative Property NCF.

REQUIRED ACTUAL COOPERATIVE PROPERTY NET CASH FLOW		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
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 • actual rents in place for occupied units, plus market rents for vacant units, or • an equivalent Cooperative Maintenance Fee based on similar units in the Property (multiplied by 12).
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)
CALCULATION OF OTHER INCOME		
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 Part II, Chapter 2: Valuation and Income, or Part III, Chapter 9: Small Mortgage Loans.
CALCULATION OF COMMERCIAL INCOME		
6	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
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.[1]
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.		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		
9	MINUS	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. You must assess: • past operating history; • market expenses; • actual service contracts in place; and • the Property’s budget. All expenses associated with STR should be underwritten in their respective expense line items.

10	MINUS	Real estate taxes based on the greatest of: • actual future tax bill(s) covering a full calendar year; • ~~prior full year's taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or~~ • prior full year's taxes multiplied by 103%; or • in California, the greater of the assessed value or the Mortgage Loan amount, multiplied by the millage rate, plus any special assessments. If the Property has real estate tax abatements, exemptions, or deferrals, they must: • be in effect at closing, per written documentation from the state or local tax assessor; and • 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). If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider • 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.

11	MINUS	All other expenses as described in Underwritten NCF calculation detailed in the applicable Part II, Chapter 2: Valuation and Income, or Part III, Chapter 9: Small Mortgage Loans, except for property insurance and management fees. For STR: • any taxes or fees imposed by the local jurisdiction; and • 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. 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 ($1,000 - $900 = $100 X 12 months) as an other expense.
	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.

ACTUAL COOPERATIVE PROPERTY DSCR		
Item	Function	Description
2	DIVIDED BY	Annual debt service for the Mortgage Loan amount. You must base debt service on a level debt service payment at the actual note rate, including amortization. Use interest-only payments only for a full-term interest-only Mortgage Loan. If the Property has subordinate debt, the debt service must include P&I to cover the actual UPB of the outstanding subordinate debt. Use interest-only payments only for full-term interest-only subordinate debt.

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 Property's 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 firm 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.

Chapter 9 Small Mortgage Loans

Section 901 Generally

901.01 Description

Requirements

A Small Mortgage Loan is a Mortgage Loan with an original loan amount of less than or equal to $9 million.

Guidance

A Small Mortgage Loan may be underwritten per:

- Part I and this Chapter; or
- Part I and Part II, as for a conventional Mortgage Loan.

901.02 Applicability

Requirements

You may use this Chapter to underwrite conventional Mortgage Loans and the following products:

- MH Communities;
- MAH Properties; and
- market rate Cooperative Properties that are not Limited Equity Cooperative Properties.

Section 902 Key Principal Guaranty Obligation

Requirements

You must obtain a Non-Recourse Guaranty (Form 6015) from each Key Principal.

Section 903 Occupancy

Requirements

Small Mortgage Loans must achieve Stabilized Residential Occupancy as follows:

If the Property contains...	Then it must have...
10 or more units	at least 90% physical occupancy by Qualified Occupants for the 90 days immediately before the Commitment Date.
Less than 10 units	• no more than 1 vacant unit as of the Commitment Date, and • an average occupancy by Qualified Occupants of at least 90% for the 12-month period immediately before the Commitment Date.

If a Small Mortgage Loan is secured by an MH Community, then Stabilized Residential Occupancy must comply with Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy.

Section 904 Corporate Leases; Leases to One Entity

Guidance

Entity leases are permitted; but you should analyze the effect of leasing

- more than 10% of the total residential units in the Property to corporations, partnerships, trusts, and other entities, or
- more than 5% of the total residential units to any single corporation, partnership, trust, or other entity.

Entity leases of residential units for residential purposes are considered residential space.

Section 905 Property Income Analysis

905.01 Small Mortgage Loan Underwritten NCF (Underwritten NCF)

Requirements

You must calculate Underwritten NCF as follows:

- for a MAH Property, per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703: Property Income and Underwriting;

except that Replacement Reserves may be calculated per the table in this Section;

- for a MH Community, per Part III, Chapter 6: Manufactured Housing Communities, Section 606: Property Income and Underwritten NCF;
- for a Cooperative Property, per Part III, Chapter 8: Cooperative Properties, Section 804: Income Analysis; and
- for all conventional Small Mortgage Loans, you must use the following table.

REQUIRED UNDERWRITTEN NET CASH FLOW (SMALL MORTGAGE LOANS)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME – the lesser of • actual rents in place, or • market rents for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12).[1]
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units. For example: • model units deducted in the “model apartment” operating expense in the “general and administrative” category; • owner-occupied units[2] deducted in the “general and administrative” category; and • employee units[3] deducted in the “employee” operating expense in the “payroll and benefits” category.
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Premiums and corporate premiums.
4	MINUS	Physical vacancy – market rents for vacant units based on a current rent roll (multiplied by 12).[4]

5	MINUS	Concessions – the aggregate amount of forgone residential rental income from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.[4]
6	MINUS	Bad debt – the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.[4]
	EQUALS	NET RENTAL INCOME (NRI)
1 (a) In the New York-Northern New Jersey-Long Island, NY-NJ-PA MSA, you may use actual rents in place plus projected increases for rent-regulated units that have rent increases scheduled before, or through, the first 12 months of the loan term. Any units subject to rent regulation on the Commitment Date must be treated as rent-regulated for this calculation even if converting to market rate after origination. (b) For Properties located in New York City that are currently subject to the J51 Tax Incentive Program, you must ensure that the Gross Rental Income is calculated per Item 1 in Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis. 2 You must deduct owner-occupied units as an expense unless • the Mortgage Loan is Tier 3 or Tier 4, or • the Property contains 24 or more units. 3 You must deduct as an expense the portion of the market rent used as employee compensation. 4 The total of Items 4, 5, and 6 must be greater than or equal to • 3% of GPR for the New York-Northern New Jersey-Long Island, NY-NJ-PA and San Francisco-Oakland-Fremont, CA, Metropolitan Statistical Areas (MSAs), if supported by market and property operations, or • 5% of GPR for all other MSAs.		
CALCULATION OF OTHER INCOME		

7	PLUS	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary, non-recurring items; and • be supported by prior years. You must assess the individual month's other income within the prior full-year operating statement; or at a minimum, an operating statement covering at least the trailing 6 month's (annualized).
CALCULATION OF COMMERCIAL INCOME		
8	PLUS	Actual income from leased and occupied commercial space per Part II, Chapter 1: Attributes and Characteristics, Section 109: Commercial Leases.
9	PLUS	Actual income from STR units.
10	MINUS	10% of the actual commercial space income (total of Items 8 plus 9).[5]
11	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections.[5]
12	PLUS	Laundry and vending, and all other income per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.
5 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		

13	MINUS	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 operating expenses must not be included. You must assess: • past operating history; • the Appraiser's expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrower's budget (in the case of an acquisition). You must: • analyze historical operations at the Property; • apply an appropriate increase over the prior year's operations in determining an estimate; and • include all STR-related expenses in their respective expense line items, including - cleaning, - furnishing, and - repairs. You cannot include any operating expense that reflects blanket or bulk discounts that benefit the Borrower or Key Principal (e.g., blanket property or casualty insurance policies, or utilities purchased in bulk). Operating expenses must reflect the Property expenses on a stand-alone basis.

14	MINUS	Property management fee equal to the greatest of: • 3% of EGI; • actual property management fee~~ (exclude any portion of a property management fee that is subordinated to the Mortgage Loan~~, provided you~~); or~~ - exclude any portion of a property management fee that is subordinated to the Mortgage Loan, and - include any known contractual fee increases occurring over the next 24 months; or • Appraiser's concluded market property management fee.
15	MINUS	Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
16	MINUS	Insurance ~~equal to:~~per Item 17(c) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF). • ~~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.~~
17	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses as detailed in Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)

18	MINUS	Replacement Reserve expense equal to the greatest of • $200 per unit, if the Property's overall rating is 1, • $250 per unit, if the Property's overall rating is 2, • $300 per unit, if the Property's overall rating is 3, or • the amount required per Part II, Chapter 4: Inspections and Reserves. The Property ratings are the ratings reported on the Comprehensive Assessment Addendum ("Comp Assmt Addendum") tab of the MBA Standard Inspection Form.
	EQUALS	UNDERWRITTEN NET CASH FLOW (UNDERWRITTEN NCF)

905.02 Underwritten DSCR

Requirements

You must calculate Underwritten DSCR per the following table.

UNDERWRITTEN DSCR[1,2]		
Item	Function	Description
1		Underwritten NCF as calculated in Part III, Chapter 9: Small Mortgage Loans, Section 905.01: Small Mortgage Loan Underwritten NCF (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 • the actual note rate, or • the required Underwriting Interest Rate Floor.[3]

UNDERWRITTEN DSCR[1,2]		
Item	Function	Description
1 For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the minimum DSCR requirement for an MAH Property per Form 4660. 2 For shorter amortization terms, you must • calculate the Underwritten DSCR based on the shorter period, and • comply with the minimum DSCR requirement per Form 4660. The mandatory NRI adjustments in Part II, Chapter 2: Valuation and Income, for Properties with declining NRI do not apply. 3 For a Small Mortgage Loan secured by an MAH Property underwritten per this Chapter, you must comply with the required Underwriting Interest Rate Floor for an MAH Property per Form 4660.		

Section 906 Property Management

Requirements

To ascertain the property management requirements, you must determine how many years of experience, as of the Commitment Date, the Borrower or any Key Principal has owning or managing residential rental properties, based on the following:

Similar in Size	Unit Range
Small Properties	• 1 multifamily property with 5 – 50 units, or • concurrently owning or managing at least 10 single-family rental units.
Medium Properties	1 multifamily property with 51 – 100 units.
Large Properties	1 multifamily property with 101 or more units.

As of the Commitment Date, a non-Local Borrower must have at least 2 years of multifamily ownership or property management experience with a property similar in size or larger than the Property.

Property management requirements are as follows.

Property Size	Professional property management or qualified on-site manager required if...
Less than 10 residential units	• non-Local Borrower, or • Local Borrower resides more than 100 miles from the Property.
10 or more residential units	• non-Local Borrower, or • Local Borrower with less than 2 years of experience with a property similar in size or larger.

A professional property management company must have an office within 100 miles of the Property when the Borrower or all Key Principals primarily reside more than 100 miles from the Property.

Guidance

A professional property management company should use a written management agreement that complies with Part II, Chapter 1: Attributes and Characteristics, Section 112: Property Management and Agreement.

A qualified on-site manager

- is not required to be a Property resident,
- should generally be on-site during normal business hours, and
- for at least 2 years the before the Commitment Date, should have either successfully managed the Property or have demonstrated management experience with a property similar in size or larger than the Property.

Section 907 Property Condition

907.01 Lender's Site Inspection and Lease Audit

Requirements

You must:

- comply with Part II, Chapter 4: Inspections and Reserves, Section 401: Site Inspection and Lease Audit; and
- not Deliver any Small Mortgage Loan if the Property's estimated

Completion/Repair costs are greater than 10% of the UPB.

907.02 Site Inspection by Borrower

Requirements

You must ensure that the Borrower or the Key Principal:

- Conducts a physical inspection of the Property.
- Certifies in the Multifamily Underwriting Certificate (Form 6460) that the physical inspection has been performed.

907.03 PCA

Requirements

You must comply with Part II, Chapter 4: Inspections and Reserves, Section 403: Property Condition Assessment (PCA).

Section 908 Replacement Reserve

Requirements

You must require either full funding or alternative funding (per Part II, Chapter 4: Inspections and Reserves, Section 405.03: Alternative Replacement Reserve Funding) of the Replacement Reserve for any Tier 2 Small Mortgage Loan on a

- Property not located in an Eligible MSA per Form 4660, or
- Rent-Stabilized Property located in the New York-Newark-Jersey City, NY-NJ-PA MSA.

For all other Small Mortgage Loans, you must determine whether to require funding of the Replacement Reserve.

If you do not require full funding, then you and the Borrower must execute either

- the appropriate Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Partially or Fully Waived) (Form 6220), or
- the Modifications to Multifamily Loan and Security Agreement (Replacement Reserve – Alternative Funding) (Form 6221).

Requirements

Before the Commitment Date, you must:

- Obtain an Environmental Screening of the Property using the ASTM E-1528 protocol.
- Perform a physical site inspection of the Property.
- Notify the Appraiser of any Recognized Environmental Condition or “non-scope considerations” that would impact the value of the Property.
- Determine if an O&M plan is appropriate to address a Recognized Environmental Condition.
- Determine if the state where the Property is located has an environmental super-lien statute, and ensure that the Property conditions are not likely to result in such a lien.
- Disclose any actual or suspected environmental conditions not disclosed in the ESA.
- Evaluate the potential risk posed by any Recognized Environmental Conditions that could result in loss or liability to you, the Borrower, the Property, or Fannie Mae.
- Obtain a copy of any Phase I ESA that the Borrower has in its possession or can obtain.
- Determine, based on the findings of the environmental screening and analysis, whether a Phase I ESA is required and, if so, contract for the report.
- When indicated, contract for a Phase II ESA.
- Disclose any knowledge of actual or suspected environmental problems.

Guidance

You may contract portions of your environmental responsibilities to qualified parties. The environmental screening and analysis may be completed by:

- the engineer conducting the PCA;
- a qualified employee; or

- a qualified non-employee.

Operating Procedures

If a qualified individual performs the environmental screening and analysis, you must:

- Identify the individual.
- Ensure that the individual certifies each environmental analysis.
- Submit a certified copy of each environmental analysis with Folder II of the Multifamily Mortgage Loan Delivery Package Table of Contents (Form 6502.Folder.II).

Section 910 Borrower, Key Principals, Guarantors, and Principals

Requirements

Except as described below, you must comply with all requirements for the Borrower, Key Principals, Guarantors, and Principals in Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals.

910.01 Borrower Organizational Structure

Requirements

Any individual Borrower must not be a Foreign Person.

Although a single asset entity is preferred, the Borrower may be a multi-asset entity.

Guidance

If the Borrower owns multiple assets, then you should obtain and underwrite the Borrower's complete schedule of owned real estate assets. Your underwriting should include the nature, location, cash flows, outstanding mortgage debt, and contingent liabilities of each asset.

910.02 Co-Tenant Borrowers

Requirements

If a Co-Tenant Borrower is not an individual or a trust holding title to assets of an individual, each Key Principal must execute the applicable Guaranty per Part III, Chapter 9: Small Mortgage Loans, Section 902: Key Principal Guaranty Obligation.

A Co-Tenant Borrower must be

- an individual who is not a Foreign Person,
- a single-asset entity, or
- a multi-asset entity.

910.03 Key Principals

Requirements

You must ensure that any individual Key Principal is not a Foreign Person.

910.04 Principals

Requirements

For Small Mortgage Loans, a Principal is any person or entity that holds direct or indirect interests of 50% or more in the Borrower.

910.05 Financial Statements

Requirements

You must:

- obtain
  - a schedule of owned real estate assets, and
  - signed financial statements; and
- verify liquid assets for the 3-months immediately before the Borrower's loan application by obtaining copies complying with the aging requirements per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals of all
  - bank statements, and
  - investment portfolio statements.

910.06 Net Worth and Liquid Assets

Requirements

You must ensure that:

- the combined net worth of the Borrower and all Key Principals equals or exceeds the original principal amount of the Small Mortgage Loan; and
- the combined post-closing liquid assets (excluding any Small Mortgage Loan cash-out proceeds) of the Borrower and all Key Principals equal at least 9 monthly payments of P&I on the Small Mortgage Loan.

Guidance

You should:

- for net worth, consider the impact of current, long-term, and contingent liabilities compared to the Small Mortgage Loan amount; and
- for liquidity, exclude the following unless you have reasonable justification:
  - retirement funds (such as IRAs and 401Ks); and
  - promissory notes payable to the Borrower or a Key Principal, whether secured or unsecured.

Section 911 Credit Reports

911.01 Credit Report

Requirements

Within 90 days before the Commitment Date, you must obtain credit reports for all individual

- Borrowers,
- Key Principals,
- Guarantors, and
- Principals.

The credit reports must be from at least 2 of the following credit information services:

- Equifax;
- Experian; or
- TransUnion.

911.02 FICO Scoring

Requirements

You must ensure that all individual Borrowers, Key Principals, Guarantors, and Principals meet the Minimum FICO Requirement in Form 4660.

Guidance

To determine that the Minimum FICO Requirement is met, follow these guidelines:

If…	Then…
You obtain credit reports from 2 of the 3 credit information services for a Borrower, Key Principal, Guarantor, or Principal	Use the lower of the 2 scores.
You obtain credit reports from all 3 credit information services, for a Borrower, Key Principal, Guarantor, or Principal	Use the middle score.
A Small Mortgage Loan has multiple individual Borrowers, Key Principals, Guarantors, or Principals	Use the average of their respective FICO scores.

911.03 Reviewing the Credit Report

Requirements

You must analyze the credit report for each individual Borrower, Key Principal, Guarantor, and Principal.

If the answer to any of the following Guidance questions is “yes”, then the Borrower, Key Principal, Guarantor, or Principal must give you satisfactory explanations, even if they meet the Minimum FICO Requirement.

Guidance

As you analyze the credit report, consider the following questions:

- Have any mortgage late payments occurred in the previous 36 months?
- Have any revolving or installment late payments occurred within the previous 12 months?
- Did you consider any of the credit card or other unsecured debt balances?
- Have any tax liens been filed or reported within the previous 5 years?
- Have any discharged bankruptcies or mortgage foreclosures occurred within the previous 10 years?
- Are there any outstanding judgments or collections higher than $5,000?