



Fannie Mae®

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# Multifamily Selling and Servicing Guide

Effective as of June 30, 2026

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## Chapter 2 Valuation and Income

### Section 201 Market Analysis

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#### 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

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#### 202.01 Lender Appraisal Function

#### Requirements

You must not allow your:

- Lender Loan Origination Functions to be involved or participate in any of your Lender Appraisal Functions, including:
  - selecting an Appraiser or ordering an Appraisal for a specific Mortgage Loan; or
  - maintaining lists of Appraisers approved or forbidden to perform Appraisals for you; and
- Lender Appraisal Functions to be involved in, or combined with, any Lender Loan Origination Functions.

Your Lender Loan Origination Functions are considered to be “Restricted Parties” who are prohibited from:

- ordering, managing, or defining the scope of work for an Appraisal assignment;
- selecting, retaining, recommending, or influencing whether an Appraiser is selected for:
  - a particular Appraisal assignment; or
  - a list of Appraisers approved or forbidden to perform Appraisals for



you; and

- communicating with an Appraiser or Appraisal management company without the Lender Appraisal Function included.

## 202.02 Appraisals

### 202.02A Appraiser Selection

#### Requirements

You must:

- maintain a list of Appraisers generally approved to perform Appraisals;
- document the selection and approval of an Appraiser, per your Lender Appraisal Function processes, 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;
- if an in-house Appraiser is used, ensure your Lender Loan Origination Function is separated from and cannot in any way influence (i.e., an ethical wall) the in-house Appraiser to:
  - prevent conflicts of interest; and
  - maintain Appraisal independence;
- 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;
  - copies of:
    - the Borrower's standard form of residential lease;
    - any executed commercial leases, including all amendments and attachments;
    - any ground leases;
    - any easements or regulatory agreements; and
    - any PSA 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.

## **202.02B** Permissible Appraiser Communications

### Requirements

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



Appraiser Communications	
You may...	You must not...
<ul style="list-style-type: none"> <li>• obtain supporting information for a specific market, including:               <ul style="list-style-type: none"> <li>- sales or rental comparable properties;</li> <li>- rent or expense data;</li> <li>- capitalization rate data;</li> <li>- recent sales; or</li> <li>- price per unit or square footage ranges;</li> </ul> </li> <li>• provide all documents needed to accurately assess the Property's value per this Chapter;</li> <li>• share or request additional supporting comparable property information; and</li> <li>• request additional documents supporting the Appraiser's conclusions.</li> </ul>	<p>provide any Mortgage Loan data, such as</p> <ul style="list-style-type: none"> <li>• LTV,</li> <li>• DSCR,</li> <li>• amount, or</li> <li>• Underwritten NCF.</li> </ul>

## 202.02C Appraiser Independence

### Requirements

You must ensure no Person influences, or attempts to influence, the development, reporting, result, or review of an Appraisal through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or any other manner including:

- withholding, or threatening to withhold:
  - timely payment; or
  - future business;
- demoting or terminating, or threatening to demote or terminate, the Appraiser or any Appraiser employee;
- promising, either expressly or implicitly, the Appraiser or any Person related to the Appraiser:
  - future business;
  - promotions; or
  - increased compensation, including
    - financial benefits, or
    - non-financial benefits;



- conditioning the Appraisal order, or any bonus payment on
  - the Appraisal's opinion of the Property's value, or
  - a requested preliminary value estimate;
- any Appraiser communications (other than providing a copy of the PSA for an Acquisition) regarding the Property's anticipated, estimated, encouraged, or desired:
  - comparable properties;
  - capitalization rates; or
  - value or value range;
- providing the Appraiser a proposed or targeted loan amount;
- impairing, or attempting to impair, through any other act or practice, the Appraiser's
  - independence,
  - objectivity, or
  - impartiality; or
- violating compliance with any law or regulation, including the USPAP.

To ensure the Appraiser's independence, you must:

- implement written policies and procedures;
- ensure any Outside Parties involved in your Lender Appraisal Functions maintain Appraiser independence by confirming they do not also participate in your Lender Loan Origination Functions; and
- if requested, provide evidence confirming your Lender Loan Origination Functions are separate from your Lender Appraisal Functions.

 [Guidance](#)



Appraisal Independence	
To ensure compliance, your written policies should include...	That describe...
Procedures	<p>how you maintain independence between the Lender Appraisal Function and Lender Loan Origination Functions through</p> <ul style="list-style-type: none"> <li>• organizational measures (e.g., an ethical wall),</li> <li>• staffing, and</li> <li>• written documentation.</li> </ul>
Disciplinary Rules	<p>the consequences for not complying with the requirements, including</p> <ul style="list-style-type: none"> <li>• promotion delays,</li> <li>• compensation reductions, or</li> <li>• termination, in very severe cases.</li> </ul>
Training Programs	<p>in-person or online training:</p> <ul style="list-style-type: none"> <li>• designed to aid compliance with the requirements; and</li> <li>• detailing policies outlining mandatory training               <ul style="list-style-type: none"> <li>- types,</li> <li>- content,</li> <li>- audiences, and</li> <li>- frequency.</li> </ul> </li> </ul>

**202.02D** 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).



Valuation Date	
If the Appraisal Date is more than...	You must...
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.

## 202.02E 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.

## 202.02F Lender Appraisal Review

### Requirements

Your Lender Appraisal Functions 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 202.03A: 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.

Your Lender Appraisal Functions 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;
  - includes a statement describing how the PCA conclusions impacted your determination of the Underwriting Value; and
  - uses supporting data from
    - your multifamily mortgage loan portfolio,
    - verified third-party valuations,
    - DUS Insights, or
    - other industry standard sources; 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 <ul style="list-style-type: none"> <li>• supply and demand dynamics,</li> <li>• interest rates, and</li> <li>• economic factors.</li> </ul>
Data Accuracy	Verify the Appraisal's data accuracy, including <ul style="list-style-type: none"> <li>• Property details,</li> <li>• recent sales prices, and</li> <li>• relevant market data.</li> </ul>
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 ( <a href="#">Form 4827</a> ).



Appraisal Analysis	
For...	You must...
Sales/Rental Comparable Analysis	<ul style="list-style-type: none"> <li>• Determine if the Appraiser used appropriate comparable properties similar in:               <ul style="list-style-type: none"> <li>- size and/or unit count (on both a per-unit and a per-square foot basis);</li> <li>- type (e.g., high-rise, mid-rise, garden, etc.);</li> <li>- age;</li> <li>- condition;</li> <li>- in-unit finishes;</li> <li>- amenities;</li> <li>- location, including                   <ul style="list-style-type: none"> <li>▪ market,</li> <li>▪ submarket, and</li> <li>▪ distance to subject; and</li> </ul> </li> <li>- sales of comparable properties, with at least 1                   <ul style="list-style-type: none"> <li>▪ being a listing/pending sale, or</li> <li>▪ sold within 24 months of the Appraisal Date.</li> </ul> </li> </ul> </li>   <li>• If appropriate comparable properties were not used, either:               <ul style="list-style-type: none"> <li>- coordinate with the Appraiser to obtain additional comparable properties; or</li> <li>- provide the Appraiser additional comparable properties from Appraisals                   <ul style="list-style-type: none"> <li>▪ for any prior transactions you originated within the last 12 months before the Appraisal Date, or</li> <li>▪ from any industry standardsources verifiable by the Appraiser.</li> </ul> </li> </ul> </li> </ul>
Market Rents and Expense Analysis	<p>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.</p>



Appraisal Analysis	
For...	You must...
Capitalization Rate Analysis	Provide your assessment that the capitalization rate: <ul style="list-style-type: none"><li>• supports your final Underwriting Value; and</li><li>• is within comparable capitalization rates compared to<ul style="list-style-type: none"><li>- your portfolio data, or</li><li>- any other industry standardsources you use to review appraisals.</li></ul></li></ul>
Value Reconciliation	<ul style="list-style-type: none"><li>• Review how the Appraiser reconciled the values obtained from different approaches to determine the final opinion of value.</li><li>• Document your assessment.</li></ul>

For each Appraisal, your Lender Appraisal Functions 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 310: Compliance](#).

## 202.02G 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.

## 202.02H 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.

## 202.03 Valuation

### 202.03A 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 PSA, the Appraiser's opinion of the market value excludes any value from any
  - Personal Property (only including fixtures if customarily valued as real estate in the market), and/or



- Intangible Property (only including business value for Seniors Housing Properties).

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, 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: Lease Audits, Inspections, and Reserves, Section 405: Completion/Repairs](#), if listed as Immediate Repairs.

## **202.03B** Property's Ownership History

### Requirements



You must:

- analyze the Property's financing and sale history for the last 3 years;
- for any Acquisition, review:
  - the PSA and deed; or
  - for the transfer of a Controlling Interest in the Borrower, the document conveying the ownership interest;
- address the following in your Transaction Approval Memo:
  - if an Acquisition 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 PSA differs from the transfer price per the public records or third-party reports, investigate and document the discrepancy;
- if an Acquisition occurred, confirm the seller was the Property owner in the real estate records when the PSA was signed;
- evaluate the PSA to:
  - clearly identify the
    - seller, and
    - purchaser; and
  - confirm the:
    - PSA is complete with no redactions, and deliver a copy to the Appraiser;
    - parties identified in the PSA match the parties in the deed (or for the transfer of a Controlling Interest in the Borrower, the document conveying the ownership interest); and
    - sale was an arm's-length transaction where no affiliation or identity of interest exists between the seller and purchaser;
- review the deed and other Acquisition documents to confirm the individuals signing on behalf of the seller and Borrower are authorized to



do so;

- review the final title company settlement statement on or before the Mortgage Loan Origination Date (including any adjustments to escrows and deposits made before closing) to confirm accuracy of the:
  - purchase price per the PSA;
  - closing costs; and
  - any cash in/out to the seller and purchaser; and
- in the Mortgage Loan Delivery Package, submit a copy of the:
  - PSA;
  - final deed (or for the transfer of a Controlling Interest in the Borrower, the document conveying the ownership interest); and
  - final title company settlement statement.

## 202.03C Underwriting Value

### Requirements

Your Underwriting Value must not exceed the Appraised Value, as reduced by necessary adjustments, 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 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;
  - 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 the Rehabilitation Reserve Account for a Moderate Rehabilitation Mortgage Loan per [Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans](#):



- ▣ on the Mortgage Loan Origination Date; or
- ▣ over the rehabilitation period in the Completion/Repair Escrow or Rehabilitation Reserve Account for an MAH Property per [Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.02F: Initial LIHTC Equity](#); and
- actual Acquisition costs, not exceeding 3% of the Acquisition price (but excluding all costs or fees paid to a Borrower Affiliate), 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.

Actual Acquisition costs must 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; and
- fees included in the Gross Note Rate, including any
- Origination Fee, or
  - broker fee.

## 202.03D Allocated Value to Real Estate and Improvements

### Requirements

For any non-Seniors Housing Property Acquisition, you must review the PSA and the final title company settlement statement to determine if any portion of the Property's Acquisition price is specifically allocated to Personal Property and/or Intangible Property.

If the Property's Acquisition price allocates any portion to Personal Property and/or Intangible Property, the allocation is permitted if the Mortgage Loan amount in the Loan Documents, Delivered data, and final title company settlement statement, does not exceed 90.00% of the:

- Property's Acquisition price; minus
- portion allocated to any other Intangible Property and/or Personal Property (excluding fixtures, if customarily valued as real estate in the market).

You must refer to [Part III, Chapter 5: Seniors Housing Properties, Section 502.02: Ineligible Properties](#) for a Seniors Housing Property.

### Guidance

The following table is a sample calculation.

Sample Calculation	
Property's Acquisition price	\$30,000,000
Appraised Value	\$30,000,000
Underwritten Value	\$30,000,000
Maximum 75% LTV	\$22,500,000
Property's Acquisition price allocation:	\$30,000,000



Sample Calculation	
• minus any allocation to Personal Property and/or Intangible Property	- \$5,000,000
• equals Property's Acquisition price allocated to real estate and Improvements	\$25,000,000
Mortgage Loan amount must not exceed 90.00% of the Property's Acquisition price allocated to real estate and Improvements	\$22,500,000 (\$25,000,000 X 90.00%)

## 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;
- if adjustments were made to any reviewed historical operating statement:
  - document and reconcile each individually adjusted line item; 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		



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
1		<p>GROSS RENTAL INCOME actual rents in place for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12). The Property must have Stabilized Residential Occupancy by Qualified Tenants.</p> <p>If the Property is located in New York City and subject to the J-51 Tax Incentive Program where the Borrower has decontrolled rent-stabilized units (a Decontrol Event), you must adjust the current rents to reflect no rent decontrol benefits:</p> <ul style="list-style-type: none"> <li>• Calculate the base rent as the rent amount per unit prior to the Decontrol Event date.</li> <li>• Use the base rent for each applicable unit to determine the Gross Rental Income.</li> <li>• Increase the base rent by the appropriate percentage allowed per New York City Rent Stabilization laws per annum through the present rent roll date.</li> </ul>
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). <sup>1</sup>
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. <sup>1</sup>



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
6	MINUS	Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt. <sup>1</sup>
	EQUALS	NET RENTAL INCOME (NRI) <sup>2</sup>

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**



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
7	PLUS	<p>Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must:</p> <ul style="list-style-type: none"> <li>• be stable;</li> <li>• be common in the market;</li> <li>• exclude one-time extraordinary non-recurring items; and</li> <li>• be supported by prior years.</li> </ul> <p>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).</p> <p>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.</p> <p>When determining the other income, you must</p> <ul style="list-style-type: none"> <li>• adjust Items 8 through 12, and</li> <li>• include specific income for Items 13 through 15 when applicable.</li> </ul>

**CALCULATION OF COMMERCIAL INCOME**

8	PLUS	Actual income from leased and occupied commercial space per <a href="#">Part II, Chapter 1: Attributes and Characteristics, Section 110: Commercial Leases</a> .
9	PLUS	Actual income from STR units.
10	MINUS	10% of the actual commercial space income (total of Items 8 plus 9). <sup>3</sup>
11	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections. <sup>3</sup>

<sup>3</sup> If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.



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



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



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
17	MINUS	<p>Line-by-line stabilized operating expenses.</p> <p>Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a</p> <ul style="list-style-type: none"> <li>• lease-up,</li> <li>• rehabilitation, or</li> <li>• other short-term positive or negative factors.</li> </ul> <p>Non-recurring, extraordinary expenses must not be included.</p> <p>You must access:</p> <ul style="list-style-type: none"> <li>• past operating history;</li> <li>• the Appraiser's expense analysis;</li> <li>• all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and</li> <li>• the Borrower's budget (in the case of an Acquisition).</li> </ul> <p>You must:</p> <ul style="list-style-type: none"> <li>• analyze historical operations at the Property; and</li> <li>• apply an appropriate increase over the prior year's operations in determining an estimate; and</li> <li>• include all STR-related expenses in their respective expense line items, including               <ul style="list-style-type: none"> <li>- cleaning,</li> <li>- furnishing, and</li> <li>- repairs.</li> </ul> </li> </ul>



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(a)	MINUS	<p>Property management fee equal to the greatest of:</p> <ul style="list-style-type: none"> <li>• 3% of EGI<sup>4</sup>;</li> <li>• actual property management fee, provided you               <ul style="list-style-type: none"> <li>- exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan, and</li> <li>- include any known contractual fee increases occurring over the next 24 months; or</li> </ul> </li> <li>• Appraiser's concluded market property management fee.</li> </ul>
<p>4 Minimum property management fee may be 2.5% of EGI (rather than 3% of EGI) provided that the:</p> <ul style="list-style-type: none"> <li>• underwritten management fee is at least \$500 per unit;</li> <li>• 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);</li> <li>• Mortgage Loan has an original principal amount greater than \$9 million; and</li> <li>• market management fees support the underwritten management fee for similarly sized properties.</li> </ul>		



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(b)	MINUS	<p>Real estate taxes based on the greatest of:</p> <ul style="list-style-type: none"> <li>• actual future tax bill(s) covering a full calendar year;</li> <li>• prior full year's taxes multiplied by 103%; or</li> <li>• in California, the sum of:               <ul style="list-style-type: none"> <li>- any special assessments; plus</li> <li>- the millage rate multiplied by the greater of the                   <ul style="list-style-type: none"> <li>▪ Mortgage Loan amount, or</li> <li>▪ assessed value.</li> </ul> </li> </ul> </li> </ul> <p>You must, for:</p> <ul style="list-style-type: none"> <li>• any tax abatement, exemption, deferral, or PILOT expiring within 36 months after the Mortgage Loan Origination Date, include fully assessed real estate taxes;</li> <li>• any Property whose sale would trigger an automatic reassessment, include any expected increase;</li> <li>• any Property with an annual or scheduled reassessment within 12 months after the Mortgage Loan Origination Date, include any expected increase;</li> <li>• all Properties:               <ul style="list-style-type: none"> <li>- use the most recently available assessed value (even if preliminary); and</li> <li>- do not use expected results from a protest, unless the protest is legally binding on the Borrower and taxing authority.</li> </ul> </li> </ul> <p>If the Property has real estate tax abatements, exemptions, deferrals, or PILOTs, they must:</p> <ul style="list-style-type: none"> <li>• be in effect at closing, per written documentation from the state or local tax assessor; and</li> <li>• survive a foreclosure 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).</li> </ul>



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
17(b) continued	MINUS	<p>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:</p> <ul style="list-style-type: none"> <li>• a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument);</li> <li>• an amortization schedule that accommodates the elimination of the abatement; or</li> <li>• providing clear justification and support in the refinance analysis.</li> </ul>
17(c)	MINUS	<p>Insurance equal to:</p> <ul style="list-style-type: none"> <li>• the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or</li> <li>• for insurance policies with a remaining term of: <ul style="list-style-type: none"> <li>- less than 6 months, 110% of the current expense;</li> </ul> </li> </ul> <p>or</p> <ul style="list-style-type: none"> <li>- 6 to 12 months, 105% of the current expense.</li> </ul> <p>For an Acquisition:</p> <ul style="list-style-type: none"> <li>• only underwrite premiums from the purchaser's carrier; and</li> <li>• disregard the seller's current insurance <ul style="list-style-type: none"> <li>- premiums, or</li> <li>- estimates.</li> </ul> </li> </ul> <p>If the Property's area is prone to Catastrophic Events, ensure the expense aligns with the market.</p>



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
17(d)	MINUS	Utilities, including the following: <ul style="list-style-type: none"><li>• building lights;</li><li>• dumpster rental;</li><li>• electricity;</li><li>• fuel oil;</li><li>• heat;</li><li>• natural gas;</li><li>• non-common area electric;</li><li>• parking lot electric;</li><li>• parking lot lights;</li><li>• septic;</li><li>• trash removal (including contract);</li><li>• utilities;</li><li>• vacant unit utilities; and</li><li>• other.</li></ul>
17(e)	MINUS	Water and sewer.



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

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



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

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



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



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

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



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

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



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



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
18	MINUS	For a Condominium Property or a Shared Use Property: <ul style="list-style-type: none"> <li>• annual assessment fees, including any expected assessment fee escalation; and</li> <li>• any known special assessments.</li> </ul>
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 <ul style="list-style-type: none"> <li>• minimum annual amount of \$200 per unit, or</li> <li>• greater amount if required in <a href="#">Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 406: Replacement Reserve</a>.</li> </ul> <p>Replacement Reserve expense must be included whether the escrow is funded or not.</p>
	EQUALS	UNDERWRITTEN NCF

## 203.02 Underwritten DSCR

### Requirements

You must calculate Underwritten DSCR per the following table.

Item	Function	Description
1		Underwritten NCF per <a href="#">Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF)</a> .



Item	Function	Description
2	DIVIDED BY	<p>Annual debt service for the Mortgage Loan amount.</p> <p>You must base debt service on a level debt service payment, including amortization, and the greater of the</p> <ul style="list-style-type: none"><li>• actual note rate, or</li><li>• required Underwriting Interest Rate Floor per Form 4660 .</li></ul>

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 calculating 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	<ul style="list-style-type: none"> <li>• Structured Transactions, and</li> <li>• Mortgage Loans secured by multiple Properties</li> </ul>	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	<ul style="list-style-type: none"> <li>• for Acquisitions, 2%; or</li> <li>• for refinances, no trending is required until the year when the actual tax bill would surpass the underwritten taxes, then trend by 2%.</li> </ul>
	Non-California Properties	<ul style="list-style-type: none"> <li>• 3% for               <ul style="list-style-type: none"> <li>- Structured Transactions, and</li> <li>- Mortgage Loans secured by multiple Properties; and</li> </ul> </li> <li>• for all other Mortgage Loans, the growth rates published in DUS Gateway for the Property.</li> </ul>



Factor	For...	Use...
Real Estate Tax Abatements, Exemptions, Deferrals, or PILOTs	All Mortgage Loans	<ul style="list-style-type: none"> <li>• if an abatement, exemption, deferral, or PILOT begins phase out or expires within 5 years after the Maturity Date, fully assessed real estate taxes; and</li> <li>• if an abatement expires or taxes are expected to rise during the Mortgage Loan term, increase taxes to the expected level, then trend by:               <ul style="list-style-type: none"> <li>- 3% for                   <ul style="list-style-type: none"> <li>▪ Structured Transactions, and</li> <li>▪ Mortgage Loans secured by multiple Properties; or</li> </ul> </li> <li>- the growth rate published in DUS Gateway in the year prior to the adjustment for all other Mortgage Loans.</li> </ul> </li> </ul>
Management Fee	All Mortgage Loans	the underwritten rate.
Replacement Reserves	All Mortgage Loans	the underwritten value.
Insurance and Other Expenses	<ul style="list-style-type: none"> <li>• Structured Transactions, and</li> <li>• Mortgage Loans secured by multiple Properties</li> </ul>	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	<ul style="list-style-type: none"><li>• 30 years, or</li><li>• the amortization for the applicable product or features.</li></ul>
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 2.00% greater than the Gross Note Rate.

## 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 industry standard 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

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#### 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	<ul style="list-style-type: none"> <li>• Purchase price; plus</li> <li>• Value created since Acquisition from               <ul style="list-style-type: none"> <li>- zoning changes,</li> <li>- demolition,</li> <li>- infrastructure improvements,</li> <li>- parcel assembly over time, and</li> <li>- other subjective entitlements.</li> </ul> </li> </ul> <p>Note: Valuation should be supported by recent land sale activity on a market and cash basis.</p>
Hard Costs	<p>Expenses for:</p> <ul style="list-style-type: none"> <li>• items including               <ul style="list-style-type: none"> <li>- substructure,</li> <li>- shell,</li> <li>- interiors,</li> <li>- construction services,</li> <li>- equipment, and</li> <li>- furnishings;</li> </ul> </li> <li>• developer fee (8% maximum); and</li> <li>• general contractor fee (10% maximum).</li> </ul>



New Construction	
For...	The Property's total development cost basis includes...
Soft Costs	<p>Fees for:</p> <ul style="list-style-type: none"> <li>• Appraisal, market studies, etc.;</li> <li>• professional services, including               <ul style="list-style-type: none"> <li>- architecture,</li> <li>- engineering,</li> <li>- consulting,</li> <li>- legal, and</li> <li>- accounting;</li> </ul> </li> <li>• review, impact, and testing (i.e., surveys, feasibility, environmental, geotechnical);</li> <li>• building permits and utility access; and</li> <li>• any HUD and LIHTC processing.</li> </ul>
Construction Financing Costs	<p>Expenses for:</p> <ul style="list-style-type: none"> <li>• construction loan financing, including               <ul style="list-style-type: none"> <li>- interest, and</li> <li>- origination fee;</li> </ul> </li> <li>• construction period               <ul style="list-style-type: none"> <li>- real estate taxes,</li> <li>- insurance, and</li> <li>- utilities; and</li> </ul> </li> <li>• Bond related fees.</li> </ul>
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.



Cash Out Transaction Support	
Factor...	Must...
Property Condition	Have improved or been good over the ownership period.
Property NCF	Have improved over the ownership period.
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 5 Seniors Housing Properties

### Section 501 Generally

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#### 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

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#### 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 lesser of:
  - the portion of the Appraised Value attributed to land and all Improvements; or
  - for a Seniors Housing Property Acquisition, the portion of the Property's Acquisition price per the final title company settlement statement attributed to land and all Improvements, but excluding any portion attributed to
    - Intangible Property, and/or
    - Personal Property (but including fixtures if customarily valued as real estate in the market).

## 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
<b>CALCULATION OF NET RENTAL INCOME</b>		
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).



REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
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)). <sup>1</sup>
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). <sup>2</sup>
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. <sup>2</sup>
7	MINUS	Bad debt the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt. <sup>2</sup>
	EQUALS	NET RENTAL INCOME (NRI) <sup>1</sup>



**REQUIRED UNDERWRITTEN NCF  
(SENIORS HOUSING PROPERTY)**

Item	Function	Description
		<p>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.</p> <p>2 The total of Items 5, 6, and 7 must equal the greater of:</p> <ul style="list-style-type: none"> <li>• the difference between the trailing 3-month net rental collections (annualized) and the GPR; or</li> <li>• the following percentages:               <ul style="list-style-type: none"> <li>- Independent Living: if the percentage of Independent Living units is greater than 50%, then use 5% of GPR.</li> <li>- 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.</li> <li>- 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.</li> <li>- Alzheimer's/Dementia Care: if the percentage of Alzheimer's/Dementia Care units is 100%, then use 10% of GPR.</li> <li>- Skilled Nursing units: use 20% of collections based on the trailing period used in determining Skilled Nursing income in Item 3.</li> </ul> </li> </ul> <p>You must determine if NRI declined per <a href="#">Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis</a> and adjust Underwritten NRI as required.</p>
<b>CALCULATION OF ASSISTED LIVING SERVICE INCOME AND OTHER INCOME</b>		
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**



REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
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.
<b>CALCULATION OF COMMERCIAL INCOME</b>		
12	PLUS	Actual income from leased and occupied commercial space per <a href="#">Part II, Chapter 1: Attributes and Characteristics, Section 110: Commercial Leases</a> .
13	MINUS	10% of the actual commercial space income. <sup>3</sup>
14	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections. <sup>3</sup>
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
<p><sup>3</sup> If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.</p>		
<b>CALCULATION OF OPERATING EXPENSES</b>		



REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
15	MINUS	<p>Line-by-line stabilized operating expenses.</p> <p>Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a</p> <ul style="list-style-type: none"> <li>• lease-up,</li> <li>• rehabilitation, or</li> <li>• other short-term positive or negative factors.</li> </ul> <p>Non-recurring, extraordinary operating expenses must not be included.</p> <p>You must assess:</p> <ul style="list-style-type: none"> <li>• past operating history;</li> <li>• the Appraiser's expense analysis;</li> <li>• all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and</li> <li>• the Borrower's budget (in the case of an Acquisition).</li> </ul> <p>You must:</p> <ul style="list-style-type: none"> <li>• analyze historical operations at the Property; and</li> <li>• apply an appropriate increase over the prior year's operations in determining an estimate.</li> </ul>
16	MINUS	<p>Property management fee equal to the greatest of:</p> <ul style="list-style-type: none"> <li>• 5% of EGI;</li> <li>• actual property management fee, including any known contractual fee increases occurring over the next 24 months; or</li> <li>• Appraiser's concluded market property management fee.</li> </ul>
17	MINUS	<p>Real estate taxes per Item 17(b) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).</p>



REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
18	MINUS	Insurance per Item 17(c) in Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
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
<b>SKILLED NURSING EFFECTIVE GROSS INCOME</b>		
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)).
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)
<b>SKILLED NURSING EXPENSES</b>		
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	<p>The minimum underwriting ratios for Underwritten NCF to current year operating lease payments are:</p> <ul style="list-style-type: none"> <li>• 1.10 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and</li> <li>• 1.15 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimer's/Dementia Care, or Skilled Nursing units.</li> </ul>
Operating Lease Payment to Debt Service Payment Ratio	<p>The minimum underwriting ratios of the current year operating lease payments to the underwritten fixed rate debt service payments are:</p> <ul style="list-style-type: none"> <li>• 1.15 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and</li> <li>• 1.20 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimer's/Dementia Care, or Skilled Nursing units.</li> </ul>

#### 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

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### Requirements

The minimum Replacement Reserve amount must equal the greatest of:

- the amount calculated per [Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 406: 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

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### 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.



# Glossary

## I

**Intangible Property** Business value, goodwill, and any other intangible value attributed to the Property being operated as a multifamily housing development.

### **Synonyms**

## P

**Purchase/Sales Agreement** Final fully executed purchase or sales contract or agreement (including all amendments, assignments, extensions, joinders/acknowledgements, and related documents) for an Acquisition.

### **Synonyms**

- PSA