Multifamily Selling and Servicing Guide

Effective as of September 18, 2023

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Fannie Mae

Summary of Changes

HIGHLIGHTS
Effective for Mortgage Loans Committed as of September 18, 2023, updated underwriting information, Loan Documents, and forms for Shared Use Properties.

Primary Changes

- In Part II:
  - Chapter 1: Attributes and Characteristics, created a new Section 108: Shared Use Properties; and
  - Chapter 2: Valuation and Income, updated the NCF calculation to include assessments for Shared Use Properties.
- Created/revised Loan Documents for Shared Use Properties, including:
  - Modifications to Multifamily Loan and Security Agreement (Shared Use of Essential Elements) (Form 6276);
  - Estoppel Certificate attached to Form 6276; and
  - Modifications to Security Instrument (Joinder and Consent (Affiliate-Owned Common Elements)) (Form 6324).

Questions

Please contact the Fannie Mae Deal Team with any questions.

Chapter 1 Attributes and Characteristics

Section 101 Eligible Properties

101.01 Generally

Requirements

For a Mortgage Loan to be eligible for purchase, it must be secured by a multifamily residential property that meets all of the following:

- contains at least 5 dwelling units;
- does not include a stand-alone building containing less than 5 dwelling units (e.g., a single-family structure), unless it:
  - was originally constructed as part of a single multifamily development; or
  - is situated on the same tax parcel, or shares a tax parcel boundary, with a
    - multifamily property, or
    - MH Community;
- has suitable bathroom and cooking facilities within each unit;
- is located in 1 of the 50 states of the United States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, or Guam;
- is located on a publicly dedicated, all-weather road, or is accessible by a satisfactory easement from this type of road;
- consists of either a single parcel or multiple parcels per Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership;
- any commercial space is:
  - physically part of, and connected to, the multifamily space; or
  - a stand-alone building that is on the same tax parcel;
- has adequate water and sewer service, which may be delivered by a public utility or, where commercially acceptable for the market area, by a private system or utility;
- offers a suitable level of utility service (e.g., electrical, natural gas, refuse removal, etc.) for the market area;

- either complies with all applicable statutes, rules, regulations, and housing and building codes, or is being appropriately remediated;
- does not contain any Modular Housing; and
- has access to police and emergency services.

Guidance

To determine if a single-family structure was originally constructed as part of a single multifamily development, you should consider if all buildings:

- were originally constructed at the same time;
- were historically bought, operated, and sold as 1 Project since originally constructed;
- are generally consistent in physical appearance, with distinct boundaries such as
  - signage,
  - gates/fencing,
  - shared parking, or
  - dedicated streets;
- are located on a single tax parcel or adjacent tax parcels;
- are configured without any non-Borrower owned parcels or buildings separating/splitting or within the multifamily development; and
- are not part of a predominately homeowner development.

101.02 Expanded Housing Choice

Guidance

A Mortgage Loan is eligible for a pricing incentive if the Borrower and Property comply with this Section.

Requirements

For Expanded Housing Choice pricing incentive eligibility, all of the following must be met:

- The Borrower agrees to:

- accept Housing Choice Vouchers throughout the Mortgage Loan term;
- not discriminate against applicants, tenants, their family members, and occupants for using Housing Choice Vouchers to pay rent and other lawful fees, including
  - applying stricter screening standards,
  - charging larger security deposits, rent, or fees, or
  - subjecting them to additional community rules;
- advertise the Property and/or available units
  - with participating Public Housing Agencies, and
  - on https://www.affordablehousing.com (or successor site); and
- execute a
  - Modification to Multifamily Loan and Security Agreement (Expanded Housing Choice) (Form 6273), and
  - Payment Guaranty (Pricing Incentive Recapture) (Form 6020.PIR).

- The Property:
  - is located in
    - Texas, or
    - North Carolina;
  - is not already required to accept Housing Choice Vouchers as a financing condition, such as per
    - an Affordable Regulatory Agreement,
    - Sponsor-Initiated Affordability Agreement, or
    - LIHTC agreement; and
  - on the Mortgage Loan Origination Date, has at least 20% of its units within the applicable HUD Fair Market Rent or Small Area Fair Market Rent, as adjusted per the applicable Public Housing Agency payment standard, with the qualifying unit mix being in proportion to the Property's overall unit mix.

Operating Procedures

Use the Housing Choice Vouchers: Expanded Housing Choice (EHC) Job Aid to commit and Deliver a Mortgage Loan qualifying for an Expanded Housing Choice pricing incentive.

Guidance

For an acceptable unit mix within the applicable HUD Fair Market Rent or Small Area Fair Market Rent, the qualifying units must be proportional to the Property's overall unit mix. An acceptable unit mix at a sample 100-unit building would be:

Sample 100-Unit Building		
Apartment Type	**Number of Units**	**Minimum 20% Unit Mix**
Studio	10	2
1 Bedroom	50	10
2 Bedroom	30	6
3 Bedroom	10	2
Total	100	20

Section 102 Multiple Properties

102.01 Single Borrower Ownership

Requirements

If more than 1 Property secures a Mortgage Loan, you must determine if all multifamily buildings are part of the same Project. Buildings on multiple Properties are a single Project if all Properties:

- are only separated by publicly dedicated or private streets primarily intended for local residents or access to the Property, and not by major arteries or thoroughfares (i.e., streets primarily intended for traffic traveling through the area); and
- have the following characteristics:
    - all buildings have been operated as a single complex (e.g., no buildings are marketed separately to tenants);
    - the Properties are within

    - 0.5 miles or less of each other, and
    - the same submarket;
  - amenities at any building are available to tenants in other buildings;
  - amenities located in one building do not materially, adversely affect the rents at other buildings without similar amenities; and
  - the overall building configuration across the Properties does not result in elevated vacancy levels at any building.

If multiple Properties are not part of the same Project, you must:

- collect detailed individual data for each Property, including separate
  - rent rolls, and
  - operating statements;
- enter each Property in the "Properties" section of DUS Gateway;
- complete a Multifamily Affordability Estimator (MAE) for each Property per Part I, Chapter 2: Mortgage Loan, Section 201: Registration and Multifamily Affordability Estimator;
- require every third-party report to assess
  - the Properties in each Project separately, and
  - all Properties in the aggregate; and
- enter each Property as a separate Property Collateral record in C&D.

When a Mortgage Loan not in a Credit Facility is secured by multiple Properties (whether in the same or multiple Projects), each multifamily Property must individually:

- comply with the minimum occupancy requirements in
  - Part II, Chapter 1: Attributes and Characteristics, Section 105: Minimum Occupancy, or
  - Part III, Chapter 9: Small Mortgage Loans, Section 903: Occupancy;
- be located in the same MSA; and
- have an acceptable Property condition based on

- your site inspection, and
- any required PCA.

Guidance

For a Mortgage Loan secured by multiple Properties not part of the same Project, you may:

- accept a consolidated third-party report for multiple Projects, if each Property is identified and assessed separately; and
- consolidate the Underwritten NCF and overall underwriting in a single Transaction Approval Memo.

102.02 Joint and Several Borrower Ownership

Requirements

If...	Then...
A Mortgage Loan • is made to joint and several Borrowers, • is secured by multiple Properties, and • has a Property owned by a different Borrower.	The Mortgage Loan and each Borrower must comply with • Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.01: Single-Asset Entity, • Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302.03: Joint and Several Borrowers with Multiple Properties, and • Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership.

Section 103 Property Ownership; Leasehold

Requirements

You must ensure that the Property is owned in fee simple, unless the Property is held under an acceptable Leasehold estate.

Section 104 Ground Leased Properties

104.01 Generally

Requirements

If the Property has a Ground Lease, the Mortgage Loan collateral must include a Lien on the Leasehold estate.

You must ensure that the Ground Lease complies with the Ground Lease Review Checklist (Form 6479), unless

- the ground lessor joins with the Borrower in executing the Security Instrument and grants a Lien on the ground lessor's fee estate, or
- the absence of the Leasehold estate would not have a material adverse effect on the Property's operation or value.

104.02 Ground Lease Rents

Requirements

You must:

- establish an escrow for ground rents;
- ensure the Borrower deposits sufficient funds; and
- make all payments due per the Ground Lease.

104.03 Ground Lease Estoppel Certificate

Requirements

You must obtain an executed Ground Lessor Estoppel Certificate (Form 6495).

104.04 Ground Lease Review

Requirements

You must:

- review and analyze the Ground Lease to ensure compliance with the requirements of this Section; and
- retain the completed Form 6479 in your Servicing File.

Section 105 Minimum Occupancy

105.01 Residential Occupancy

Requirements

You must ensure the Property meets these minimum occupancy levels:

- 85% physical occupancy; and
- 70% economic occupancy.

These minimum levels apply on the Commitment Date and for the preceding 3-month period.

105.02 Qualified Occupants

Requirements

When calculating physical occupancy, you must only include tenants who

- physically occupy the unit, and
- have commenced paying rent.

Guidance

You may include any tenant who:

- was under a standard lease for at least 6 months, then converted to a month-to-month lease when the lease expired; or
- is under a lease with a term of less than 6 months, if shorter-term leases
  - are commonly accepted in the market area, and
  - do not reflect weakness in the market.

You may include non-revenue producing units such as

- management units,
- employee occupied units,
- maintenance units, and

- model units.

Such units should not exceed what is usual and customary for stabilized properties in the market.

Section 106 Certificates of Occupancy

Requirements

Certificates of Occupancy	
For any...	You must...
Property with construction or rehabilitation work completed within the last 12 months	• Ensure all units have a certificate of occupancy. • Obtain copies of all certificates of occupancy from the Borrower. • Retain them in your Servicing File.
Other Property	• Determine if each unit had a certificate of occupancy at some point. • Attempt to obtain copies of them. • Retain them in your Servicing File.

Guidance

No Certificate of Occupancy	
If you cannot obtain...	You should...
Copies of certificates of occupancy for a Property (for example, because of the Property's age, or the records of the jurisdiction where the Property is located)	• Exclude the income generated by any units without a certificate of occupancy, but include all expenses (including replacement reserves) for the maintenance of these units. • Look for other evidence that certificates of occupancy had been issued.

No Certificate of Occupancy	
Copies or other sufficient evidence of a certificate of occupancy	Analyze the risk to the Property if one had never been issued, by considering if: • your physical inspection reveals any life safety issues; • all units are accessible through normal access routes (and not, for example, through a former janitorial closet); • the insurance excludes coverage of a casualty originating from a unit without a certificate of occupancy; and • the Property is located in a market that exhibits low vacancies and barriers to entry.

Section 107 Phased Properties

Requirements

If the Property is a Phased Property, you must evaluate

- how the Property will be affected by other phases, and
- if the Property can succeed independently from other phases.

Guidance

In determining if a Phased Property is viable as a separate Property, you should consider if:

- its ownership and operation are separate from all other phases of the complex;
- the Borrower is able to provide a separate leasing office;
- your underwriting has discounted any benefits derived from staff or facilities shared with other phases;
- the records and accounts used to underwrite the Property are separate from those of other phases;
- any cross-easements for the complex will survive an adverse action

against another phase;

- any development of a future phase could materially interfere with or disturb the Property's
  - occupancy,
  - marketability,
  - or living environment; and
- the Property is:
  - marketable to tenants or a new owner, separately from other phases;
  - visible to the public without passing through another phase of the complex; and
  - accessible from a public roadway.

In assessing the impact of future phases on a Property, you should consider:

- the short-term impact of construction activity; and
- long-term implications for the continued economic viability of the Property, taking into account the allocation of costs for shared facilities (such as roadways).

☑ Requirements

You may only Deliver a Mortgage Loan on a Phased Property if Fannie Mae holds all other Mortgage Loans secured by other phases of the complex.

When the Phased Property is owned or Controlled by the same Borrower or Principals as the other phases in the complex:

- all Fannie Mae Mortgage Loans on each phase must be cross-defaulted and cross-collateralized;
- when any new Phased Property Mortgage Loan is underwritten, the actual amortizing DSCR (per Form 4254.DEF) and current LTV for all existing Mortgage Loans on each phase must comply with Form 4660 for the same loan term, product, and Pricing and Underwriting Tier, where each property value is determined by
  - dividing the current NCF by the capitalization rate (i.e., a Direct

Cap with Sales Comparables analysis),

- broker's opinion of value, or
- most recent Appraisal; and

- the new Phased Property Mortgage Loan must have a Prepayment Premium Period End Date on or before the Prepayment Premium Period End Date of the Mortgage Loans on the other phases.

Guidance

If a future phase is expected, consider issuing the first phase MBS with a potential future cross.

Section 108 Shared Use Properties

108.01 Eligibility

Requirements

This section does not apply to

- Condominium Properties, and
- Cooperative Properties.

Shared Use Property Delivery Eligibility for Essential Elements Not Located on the Property	
Topic	A Shared Use Property Mortgage Loan is eligible for Delivery if…

Shared Use Property Delivery Eligibility for Essential Elements Not Located on the Property	
Documents	you determine after any casualty or condemnation: • the Shared Use Documents do not explicitly prohibit Essential Elements from being rebuilt or repaired; and • a failure to repair or rebuild the Essential Elements will not materially adversely impact the Property's - leasing, - value and marketability, - zoning law compliance, or - refinancing.
Property	the Property benefits from Essential Elements per Shared Use Documents that: • are perpetual; • inure to the benefit of future Property owners; • are recorded in the land records; and • if applicable, are insured as beneficial easements under the lender's title policy.
Split Ownership of Units and Essential Elements	when the Borrower owns all units subject to the Shared Use Documents, and an Affiliate of the Borrower or Key Principal directly or indirectly owns the Essential Elements that benefit only the Property, such Affiliate joins the: • Loan Documents as a joint and several Borrower; or • Security Instrument using the Modification to Security Instrument (Joinder and Consent (Affiliate Owned Common Elements)) (Form 6324).

Shared Use Property Delivery Eligibility for All Essential Elements	
Topic	A Shared Use Property Mortgage Loan is eligible for Delivery if...

Shared Use Property Delivery Eligibility for All Essential Elements	
Financial	all: • Property and Essential Elements expenses and charges payable per the Shared Use Documents are current; • assessments and payments payable per the Shared Use Documents are current; and • to the extent permitted by law, future assessments owed by the Borrower and associated liens, if any, are subordinate to the Mortgage Loan.
Borrower Status	the Borrower: • has no outstanding community violations; and • is not involved in a community dispute that may - result in litigation, or - materially adversely impact the Property.

108.02 Documents

108.02A Loan Documents

☑ Requirements

You must:

- ensure the Borrower executes the Modification to Multifamily Loan and Security Agreement Shared Use of Essential Elements (Form 6276); and
- if appropriate per the conditions described in the Estoppel Certificate attached to Form 6276, use reasonable efforts to obtain from the association or other appropriate party:
  - the Estoppel Certificate attached to Form 6276; or
  - other form providing similar representations.

108.02B Shared Use Documents

☑ Requirements

You must:

- evaluate the Shared Use Documents;
- document your evaluation in the Transaction Approval Memo; and
- obtain:
  - an ALTA title policy per Part II, Chapter 3: Legal Compliance, Section 304: Title Insurance; and
  - ALTA Endorsements(i.e., 5-06, 28-06, and 9-06) if available in the Property's jurisdiction.

Guidance

Shared Use Document Evaluation	
Topic	You should review the Shared Use Documents to evaluate...
Ownership and Control	• if the Borrower owns all Improvements and the underlying land; • if Essential Elements not located on the Property exist, and if ownership is: - directly or indirectly by an Affiliate of the Borrower or Key Principal; - by a separate association or governing body; - by another community owner or an adjacent property owner; or - shared by the community owners; and • how association and Essential Elements decisions are made by any - developer, - declarant, - association, - community owner, or - other governing body.

Shared Use Document Evaluation	
Responsibilities and Enforcement	how an association or governing body: • collects fees and assessments; • maintains Essential Elements; • obtains insurance; • mediates disputes; and • enforces covenants, including - levying fines or interest, or - pursuing liens or foreclosure.
Fees	the assessment fee structure, including • escalation provisions, • special assessments, and • if assessments should be escrowed.
Budget	the association's current • annual budget, • income/expense statements, and • reserve accounts.
Mandates	how the association dictates: • operations; • physical appearance; • insurance claim proceeds; • other restrictions, including limitations or modifications for using the Essential Elements; and • if the cost and maintenance of the Essential Elements located on the Property are not overly burdensome.
Insurance	the association's coverage for: • property, including if the Essential Elements not located on the Property must be rebuilt or repaired after any casualty or condemnation; • liability; and • director's and officer's.

Section ~~108~~ 109 Commercial Leases

☑ Requirements

You must only underwrite actual income from occupied commercial space with an executed lease or lease extension agreement, if:

- the remaining lease term is at least 12 months after the Mortgage Loan Origination Date;
- the tenant is
  - paying rent, and
  - not delinquent on rent due outside the lease's cure period; and
- the underwritten commercial income includes the actual commercial rent due under the lease within 12 months after the Mortgage Loan Origination Date, including any
  - discounts, or
  - concessions.

Guidance

Your evaluation of any commercial space's viability should include:

- Appraisal sub-market comparable commercial space rents supporting the underwritten rents;
- sub-market data confirming a low commercial space vacancy rate;
- existing sustainable demand for the tenant's business type; and
- evidence that the Property's location has sufficient foot traffic to support the tenant's business.

~~108.01~~ 109.01 Material Commercial Leases

~~108.01A~~ 109.01A Lease Review

Requirements

You must analyze all aspects of each Material Commercial Lease and its

- tenants,
- grantees, or

- other beneficiaries.

If Material Commercial Lease approval is required per Part II, Chapter 1: Attributes and Characteristics, Section 108.01B: Lease Approval you must:

- prepare a written summary of the material terms of the Material Commercial Lease; and
- keep a copy of your summary in your Servicing File.

Guidance

As you analyze the Material Commercial Lease, you should consider if:

- each tenant has the ability to fulfill its financial and other performance obligations under the Material Commercial Lease;
- the Material Commercial Lease insurance provisions are consistent with the insurance requirements in the applicable Loan Documents or otherwise prescribed by Fannie Mae;
- each tenant is required to obtain the Lender's consent before the Material Commercial Lease is
  - assigned,
  - subleased,
  - subcontracted, or
  - otherwise transferred; and
- the tenant
  - has early termination clauses, and
  - understands the conditions under which they can terminate, including
    - a material casualty or condemnation, or
    - if the landlord cannot substantially restore the premises in a reasonable period of time following a casualty or condemnation.

~~108.01B~~ 109.01B Lease Approval

Requirements

Material Commercial Lease Type	
Lease with Property Assessed Clean Energy (PACE) Financing	You must not approve any Material Commercial Lease that includes PACE financing.
Renewable Energy Generation Lease	You must only approve leases for renewable energy systems that comply with Part II, Chapter 1: Attributes and Characteristics, Section 109: Renewable Energy Generation Systems.
Other Material Commercial Leases	You must only approve other Material Commercial Leases that comply with Part II, Chapter 1: Attributes and Characteristics, Section 108: Commercial Leases.

~~108.01C~~ 109.01C Lease Modifications

Requirements

As you review each Material Commercial Lease modification, you must consider if it:

- violates any of the requirements of this Section;
- contains terms that are inconsistent with the Mortgage Loan; or
- presents risks that are inappropriate for the Mortgage Loan.

If any of these conditions are present you must:

- require the Borrower to modify the Material Commercial Lease appropriately; or
- address the items in the Tenant Estoppel Certificate (Form 6413) and/or the Subordination, Non-Disturbance, and Attornment Agreement (Form 6415).

~~108.01D~~ 109.01D Tenant Estoppel Certificate

Requirements

You must obtain a Tenant Estoppel Certificate (Form 6413) for each Material Commercial Lease.

~~108.01E~~ 109.01E Subordination, Non-Disturbance and Attornment

Requirements

You must use Form 6415 if:

- the Material Commercial Lease contains provisions for the Borrower to assume liability or other risks as landlord that would be unacceptable to the Lender in case of a Foreclosure Event; or
- the form
  - is necessary for subordination and attornment, or
  - would otherwise be beneficial.

You must ensure that each Material Commercial Lease (including any renewal or extension):

- is subordinate to the Lien of the Security Instrument; and
- requires the tenant to attorn to the Lender under the Mortgage Loan.

~~108.02~~ 109.02 Non-Material Commercial Leases

~~108.02A~~ 109.02A Tenant Estoppel Certificate; Lease Modification

Requirements

You must make reasonable efforts to get a Form 6413 for each non-Material Commercial Lease, other than leases relating only to equipment or maintenance services.

If a non-Material Commercial Lease has terms that are inconsistent with the terms of the Mortgage Loan or present inappropriate risks for the Mortgage Loan, then you must:

- require the Borrower to modify the lease appropriately; or
- address any inconsistencies or risks in a Form 6413.

~~108.02B~~ 109.02B Non-Material Commercial Lease Types

Requirements

Non-Material Commercial Lease Type	
Telecommunications and Cell Tower Leases	You must review any telecommunications and cell tower lease to ensure it does not: • comprise more than 5% of the Property's Effective Gross Income; • negatively impact the Property's - value, - visibility, - livability, or - marketability; • impose an undue financial or operating burden on the Property or the Borrower; • obligate the Borrower to rebuild any Improvements at the Property post-casualty or condemnation; • have a lease term (including extension options) in excess of 25 years; • contain a purchase option; or • convey any right to the tenant other than simple lessee rights (e.g., a perpetual easement, a purported sale of a portion of the Improvements, unjustified exclusivity, etc.).

Communications Service Agreement	You do not need to subordinate the service agreement to the Lien of the Security Instrument if: • the Borrower certifies to you that neither the Borrower, nor any Key Principal or Principal, is an Affiliate of the communications service provider; and • the lease does not contain provisions for the Borrower to assume liabilities and risks as landlord that would not be acceptable for you (as lender under the Mortgage Loan) in the context of a Foreclosure Event. If a communications service agreement is accompanied by a lease or easement, then the lease or easement must end automatically when the service agreement expires, unless the service agreement is subordinated to the Lien of the Security Instrument.

Mineral Rights; Oil and Natural Gas Leases	You must review each agreement or lease of mineral rights or rights relating to subsurface oil and natural gas to ensure that it does not: • comprise more than 5% of the Property's Effective Gross Income; • grant surface entry for any purpose (e.g., pipes, access across, or storage on the Property); • grant subsurface rights within - 250 feet below the surface of the Property, or - 600 feet from any Property boundary line; • have a material adverse effect on - public health and safety, - air quality or noise levels, or - the Property's marketability or occupancy; • permit oil or gas well activities with potential negative effects on the Property's - access, - visibility, or - storm water drainage; • have a negative effect on the Property's - zoning, or - allowable density; • facilitate drilling, storage, or processing of oil or gas on the Property or any adjacent property; or • fail to require the lessee to indemnify and hold harmless the Borrower, as lessor, for any damage to the Property or any other damage or liability caused directly or indirectly as a result of the oil and gas exploration or drilling activities. The Borrower must execute Form 6262 if a lease or deed reservation of rights allows for the subsurface exploration of oil, natural gas, or minerals, but no evidence of active or planned exploration or drilling exists on the Property.

Laundry Lease	You do not need to subordinate the lease to the Lien of the Security Instrument if you confirm that the lease: • is not with an Affiliate of the Borrower or any Key Principal or Principal; • has market terms; • contains an acceptable termination for cause provision; and • meets recognized industry standards.
Equipment or Related Maintenance Services Lease	You must ensure that the lease: • is subordinate to the Security Instrument; • contains an acceptable termination for cause provision; and • meets recognized industry standards.

Guidance

Non-Material Commercial Lease Type	
Storage Unit Lease	You do not need to subordinate the lease to the Lien of the Security Instrument if you determine the unit is being leased pursuant to a residential Lease.

~~108.03~~ 109.03 Short Term Rentals

Requirements

You must ensure that:

- the residential nature of any Property with units available for STR is maintained, even though any Lease of an STR unit will be
  - classified as a commercial lease, and
  - subject to the space and income limitations per Form 4660;
- no more than 5% of the Property's units (not counting recreational vehicle sites) are available for STR; and
- the Underwritten NCF accurately incorporates all STR income.

You must include the following information in your underwriting analysis:

- Borrower's strategy for implementing STR;
- a description of the STR arrangement;
- length of time the STR has been in place;
- Borrower's action plan for handling liability issues for
  - STR tenants at the Property, and
  - safety concerns for non-STR tenants;
- if the STR units are furnished or unfurnished; and
- confirmation that the
  - STR is legally permissible and in compliance with applicable laws and zoning,
  - Borrower's or master tenant's insurance covers any STR, and
  - Property is residential in nature (i.e., not operated as a hotel or other single room occupancy arrangement).

Guidance

Examples of an STR arrangement include an arrangement between the Borrower and:

- a tenant/master tenant, where the tenant/master tenant has an agreement with an STR provider or platform (such as Airbnb, VRBO®, etc.); or
- an STR provider or platform, where the Borrower's tenants may make their units available for STR.

You should seek to establish a leasing history of at least 12 months for any STR unit.

Section ~~109~~ 110 Renewable Energy Generation Systems

~~109.01~~ 110.01 Acceptable Renewable Energy Generation Systems

Requirements

Any operational renewable energy generation system benefitting the Property or the Borrower must be:

- located on the Property;
- comprised of a Solar PV System;
- Borrower-owned; and
- installed, or installation will begin, on or before the Mortgage Loan Origination Date.

~~109.02~~ 110.02 Solar Photovoltaic Systems

Requirements

For any Property with an acceptable Solar PV System, you must ensure:

- All equipment, including energy storage, is located on the Property and owned by the Borrower.
- The Borrower has all required permits, licenses, and certificates to comply with all utility tariffs and laws governing the
  - generation,
  - storage,
  - transmission, and
  - distribution of electricity.
- The Property will remain connected to the utility grid even if the Solar PV System output is sufficient for all of the Property's energy needs.
- The Borrower will not be characterized or regulated as a public utility.
- Any power generated from the Solar PV System that is not consumed or stored on-site is only sold to the local utility, not to any other third party.
- Any battery storage system is designed only for on-site uses (e.g., peak shaving), and the Borrower has not arranged for ancillary services with any utility or third party.
- The Borrower executes Modifications to Multifamily Loan and Security Agreement (Mortgage Loan with installed Solar Photovoltaic System) (Form 6270).

Guidance

You should engage legal counsel with solar photovoltaic system experience and state-specific knowledge to review all applicable local laws, contracts, and agreements regarding the Solar PV System installation and operation, including:

- the interconnection agreement with local distribution company or utility;
- any net metering agreements;
- engineering, procurement, and construction contracts or agreements;
- any Operating and Maintenance Agreements;
- notice of Permission to Operate (or similar document) provided by local distribution company or utility;
- any supplemental financing or financing incentives (e.g., grants, tax credits, etc.) used by the Borrower to finance the Solar PV System to determine if any competing liens or other restrictions might result;
- any leases or contractual arrangements, such as agreements for
  - renewable energy certificates,
  - solar renewable energy certificates, or
  - purchasing power; and
- confirming that Borrower will not be deemed a public utility.

~~109.03~~ 110.03 Solar PV System Module

Requirements

The PCA must include an evaluation of the Solar PV System equipment and roofs/structures where the equipment is mounted per the Solar PV Module of Form 4099.

~~109.04~~ 110.04 Underwritten NCF

Requirements

When calculating Underwritten NCF:

- do not include any income derived from the Solar PV System, except for tenant utility reimbursement;

- any utility reimbursement income must
  - not exceed the trailing 12-month period, and
  - consider any decrease from the lower utility expense;
- utility expense must be supported by the trailing 12-month operating history; and
- include all additional Solar PV System operating expenses such as:
  - operating and maintenance contract fees;
  - fixed utility fees;
  - incremental real estate taxes;
  - insurance coverage; and
  - Replacement Reserves for equipment replacement and/or system removal and reinstallation upon roof replacement.

Section ~~110~~ 111 Oil/Gas Wells and Mineral Exploration

~~110.01~~ 111.01 Active Oil and Gas Wells

Requirements

You must ensure the Property has no evidence of any surface entry related to active mineral, oil, or gas activities.

For Properties with mineral, oil, or gas exploration on an adjacent property, you must:

- Identify whether the exploration is active or inactive.
- Deliver a Phase I ESA for the Property reporting no Recognized Environmental Conditions.
- Confirm all mineral, oil, or gas:
  - equipment is located more than 600 feet from any Property boundary line; and
  - exploration on the adjacent property does not impact the health or safety of the Property's tenants or have a material adverse impact to its marketability.

- Confirm:
  - the adjacent property is not owned by an Affiliate of the Borrower; and
  - either:
    - no history of spills or leaks exists; or
    - if spills or leaks have occurred, all applicable permits are in place.

Guidance

Evidence of active mineral, oil, or gas activities on the Property may include:

- wells associated with production, exploration, or extraction;
- active storage or processing; or
- associated pits, ponds, or lagoons.

~~110.02~~ 111.02 Inactive Oil and Gas Wells

Requirements

You must ensure the Property has no evidence of inactive mineral, oil, or gas equipment, unless:

- the Property's Phase I ESA is acceptable;
- if the Property is subject to an oil and gas lease, the lease complies with Part II, Chapter 1: Attributes and Characteristics, Section 108.02B: Non-Material Commercial Lease Types; and
- for a refinance, all mineral, oil, or gas equipment has been removed, capped, and closed per regulatory requirements before closing, and you have a permit or closure letter from the governing authority; or
- for an acquisition, you:
  - require the mineral, oil, or gas equipment/wells to be removed, capped, and closed per regulatory requirements within 180 days after the Mortgage Loan closing;
  - escrow the applicable cost to remove equipment, close wells, and

remediate the site per regulatory requirements;

- receive a permit or closure letter from the governing authority; and
- modify the Environmental Indemnity Agreement as required by Fannie Mae.

Section ~~111~~ 112 Property Management and Agreement

~~111.01~~ 112.01 Property Management

Requirements

You must ensure the Property's management team is adequate.

Guidance

An independent, professional Property management company is not required. However, when analyzing Property management, you should consider if the management team:

- has adequate experience to ensure effective Property
  - administration,
  - leasing,
  - marketing, and
  - maintenance; and
- is staffed appropriately for the
  - Property type and size, and
  - services provided.

~~111.02~~ 112.02 Property Management Agreement

Requirements

If the Borrower is not the Property manager, you must ensure the:

- Borrower has a written management agreement with a Property management company allowing Lender cancellation without penalty or prior notice in case of a Borrower default per the Loan Documents; or

- Borrower and Property manager complete the Assignment of Management Agreement (Form 6405).

Guidance

You should ensure the Property management agreement clearly states the

- Property manager's responsibilities, and
- amount of the management fee (or fee determination methodology).

Chapter 2 Valuation and Income

Section 201 Market and Valuation

201.01 Market Analysis

Requirements

You must:

- Evaluate the Property's market area, identifying its strengths and weaknesses.
- Take these characteristics into account when structuring the Mortgage Loan.

201.02 Appraisal

Requirements

You must:

- obtain an Appraisal that:
  - is prepared by a qualified, state-licensed or -certified appraiser;
  - conforms to the requirements in the USPAP; and
  - meets any governmental regulations in effect when the Mortgage Loan was originated, including the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; and
- ensure all:
  - Potential Red Flags for Mortgage Fraud and Other Suspicious Activity were considered; and
  - unresolved red flags were reported per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance.

201.02A Appraiser Role and Qualifications

Requirements

You must:

- Provide the appraiser all documents needed to accurately assess

Property's value.

- Ensure the appraiser:
  - completely and accurately describes the Property and the market;
  - provides an opinion of the Property's market value, supported by
    - market data,
    - logical analysis, and
    - sound professional judgment; and
  - uses an industry standard form of Appraisal that is appropriate for the size and structure of the Mortgage Loan.

When selecting an appraiser, you must document that the appraiser is licensed or certified, as appropriate, per applicable state law.

When using an appraiser, you must ensure the appraiser (whether third-party or in-house):

- acts independently;
- does not participate in the Mortgage Loan approval; and
- is not a member of the loan origination or underwriting staff.

201.02B Valuation Date

Requirements

You must:

- update any Appraisal if the Appraisal Date is more than 6 months before the Commitment Date; and
- require a new Appraisal if the Appraisal Date is more than 12 months before the Commitment Date.

Guidance

For an Appraisal dated less than 12 months before the Commitment Date, you may obtain an updated Appraisal that complies with USPAP guidelines, dated within 6 months of the Commitment Date.

201.02C Appraised Value

Requirements

You must ensure the appraiser provides an opinion of the market value, on an "as is" basis, of:

- 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.

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" Appraisal for the opinion of Appraised Value if all of the following conditions apply:

- less than 12 months have passed between the Borrower's acquisition of the Property and the Commitment Date;
- for any capital improvements made after the Mortgage Loan Origination Date to be considered in an "as completed" Appraisal, 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 an allowance for cost overruns); and
- all capital improvements are required to be completed in a timely manner:
  - those identified by the Borrower must be completed within 12 months after the Mortgage Loan Origination Date; and
  - for others identified as Immediate Repairs, a shorter time period

may be required by Part II, Chapter 4: Inspections and Reserves, Section 403: Completion/Repairs.

201.03 Underwriting Value

Requirements

Your Underwriting Value must not exceed the Appraised Value, as reduced by any adjustments you deem necessary accounting for 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;
  - 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
  - Completion/Repair Escrow,
  - Replacement Reserve,
  - 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.

202.01 Underwritten Net Cash Flow (Underwritten NCF)

Guidance

Underwritten NCF may

- differ significantly across assets, and
- will be driven by particular Property circumstances.

Therefore, 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).
- 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:

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

Requirements

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

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

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]

<table>
<tr><td>5</td><td>MINUS</td><td>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]</td></tr>
<tr><td>6</td><td>MINUS</td><td>Bad debt - the aggregate amount of unpaid rental income determined to be uncollectable, including any adjustments to other income for bad debt.[1]</td></tr>
<tr><td></td><td>EQUALS</td><td>NET RENTAL INCOME (NRI)[2]</td></tr>
<tr><td colspan="3">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 there are fluctuations, 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.</td></tr>
<tr><th colspan="3">CALCULATION OF OTHER INCOME</th></tr>
</table>

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 108: 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 (exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan); or • 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 per unit; • actual management fee is equal to or less than the underwritten management fee; • Mortgage Loan has an original principal amount greater than $3 million; and • market management fees support the underwritten management fee for similarly sized properties.		
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% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); 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 tax 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. 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 • 110% of the current expense, for insurance policies with a remaining term less than 6 months.
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; • on-going 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 404: Replacement Reserve. Replacement Reserve expense must be included whether the escrow is funded or not.
	EQUALS	UNDERWRITTEN NCF

202.02 Underwritten DSCR

☑ Requirements

You must calculate Underwritten DSCR per the following table.

Item	Function	Description
1		Underwritten NCF per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).

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 203 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.

203.01 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	• Student Housing Properties, • Dedicated Student Housing Properties, • Structured Transactions, and • Mortgage Loans secured by multiple Properties	2%.
	Multifamily Affordable Housing Properties	an overall growth rate based on the proportion of restricted units (i.e., affordable at 80% AMI or less) and the proportion of unrestricted units, and using: • 2% for restricted units; and • the rent growth published in DUS Gateway for the Property's submarket for unrestricted units. For example, for a 100 unit Property, with 20 restricted units, and a 4% DUS Gateway submarket rent growth, the overall growth rate would be 3.6% or (20/100 x 2%) + (80/100 x 4%).
	All other Mortgage Loans	the rent growth published in DUS Gateway for the Property's submarket.

Factor	For...	Use...
Economic Vacancy	All Mortgage Loans	the underwritten economic vacancy rate.
Real Estate Taxes	All Mortgage Loans	• for California: - acquisitions, use 2%; or - refinances, no trending is required until the year when the actual tax bill would surpass the underwritten taxes, then trend by 2%; and • for all other Mortgage Loans: - use 3%; or - 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%; or - 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.
All Other Expense Growth Rate	All Mortgage Loans	3%.

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

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

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

You should consider the following refinance parameters:

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

203.02 Alternative Assumptions

Guidance

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

You should:

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

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

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

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

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 204 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.

Guidance

When underwriting a cash out transaction you should consider:

- the amount of hard equity remaining in the Property, 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;
- any improvement in asset quality over the ownership period;
- any improvement in the Property's operations (i.e., its NCF) or value over the ownership period;
- 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:

New Construction	
For...	The Property's total development cost basis includes...

New Construction	
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).
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.

New Construction	
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...	Should...
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.
Property Value	Have increased due to higher NCF over the ownership period.

Section 205 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.

Essential Elements

A Shared Use Property's amenities, common areas or infrastructure:

- impacting or essential to the:
  - operation,
  - use,
  - value and marketability,
  - leasing,
  - refinancing, and/or
  - zoning or legal compliance; and
- examples of Essential Elements may include:
  - parking,
  - roadways,
  - utility easements, and
  - amenities such as
    - laundry facilities,
    - clubhouses,
    - pools,
    - playgrounds,
    - tennis courts,
    - fitness clubs, and
    - recreational facilities.

Shared Use Documents

Agreements benefiting and/or burdening a Shared Use Property, such as:

- reciprocal easement agreements (REA);
- declaration of covenants;
- conditions and restrictions (CCR);
- development agreements;
- shared use agreements;
- joint ownership agreement or similar agreements governing homeowners' associations (HOAs);
- planned unit developments (PUDs); or
- other common interest arrangements or planned developments.

Shared Use Property

Property subject to Shared Use Documents:

- benefiting the Property by granting the right to use Essential Elements on common areas created by, or other properties subject to, the Shared Use Documents, and/or
- burdening the Property by:
  - subjecting it to:
    - property-use or other restrictive covenants;
    - fees or assessments; or
    - maintenance obligations; or
  - allowing other parties subject to the Shared Use Documents the right to use the Essential Elements located on the Property.