



Fannie Mae®

---

# Multifamily Selling and Servicing Guide

Effective as of October 26, 2023

No portion of this Multifamily Selling and Servicing Guide may be reproduced in any form or by any means without Fannie Mae's prior written permission, except as may be provided herein or unless otherwise permitted by law. Limited permission to reproduce this Multifamily Selling and Servicing Guide in print, in whole or in part, and limited permission to distribute electronically parts of this Multifamily Selling and Servicing Guide, are granted to Fannie Mae-approved Lenders strictly for their own use in originating and selling multifamily Mortgage Loans to, and servicing multifamily Mortgage Loans for, Fannie Mae. Fannie Mae may revoke this limited permission by sending 60 days advance written notice to any or all Fannie Mae-approved Lenders.



## TABLE OF CONTENTS

---

Summary of Changes .....	3
Part II Chapter 2 Valuation and Income .....	5
Section 201 Market and Valuation .....	5
201.01 Market Analysis .....	5
201.02 Appraisal .....	5
201.02 A Appraiser Role and Qualifications .....	5
201.02 B Valuation Date .....	6
201.02 C Appraised Value .....	6
201.03 Underwriting Value .....	8
Section 202 Income Analysis .....	9
202.01 Underwritten Net Cash Flow (Underwritten NCF) .....	9
202.02 Underwritten DSCR .....	27
Section 203 Refinance Risk Analysis .....	28
203.01 Base Assumptions .....	28
203.02 Alternative Assumptions .....	32
Section 204 Cash Out Analysis .....	34
Section 205 Rent-Stabilized Properties .....	36



## Summary of Changes

### HIGHLIGHTS

**Effective as of October 26, 2023**, the income and expense growth rate data used to calculate exit rates in DUS Gateway will be updated to align with the new Refinance Risk Analysis Base Assumptions.

### Primary Changes

You must:

- use 2% income growth/3% general expense trending to calculate exit rates for a Mortgage Loan:
  - in a Structured Transaction; or
  - secured by multiple Properties; and
- for all other Mortgage Loans, use the income and expense growth rates published in DUS Gateway for the Property.

### Implementation

On October 26, 2023, DUS Gateway exit rate fields will automatically update to:

- Standard Exit; and
- Exit Rates at 2%/3%.

You must use the new growth rate methodology for all transactions with a DUS Gateway Deal Submitted Date:

- on or after October 26, 2023; or
- before October 26, 2023, and
  - the quote has expired,
  - a new loan option is added, or
  - a change is made to an existing loan option.

If you are using the prior growth rate methodology for a transaction with a DUS Gateway Deal



Submitted Date before October 26, 2023:

- enter the prior exit rate in the "Expected Exit Refinance Interest Rate" field on the "Loan Options" page; and
- note the prior exit rate's use in your Transaction Approval Memo.

### **Superseded Publication**

This publication supersedes Guide Update 23-07: Refinance Risk Analysis.

### **Questions**

Please contact the Fannie Mae Deal Team with any questions.



## 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		



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 <a href="#">Stabilized Residential Occupancy by Qualified Tenants</a>.</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 <a href="#">Decontrol Event</a>), 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 <a href="#">Decontrol Event</a> 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>



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
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>
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>
<p>1 The total of Items 4, 5, and 6 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 GPR, or</li> <li>• 5% of GPR.</li> </ul> <p>2 NRI must reflect projected operations for the underwriting period.</p> <p>a. You must assess the NRI using these parameters and fully support any changes:</p> <ul style="list-style-type: none"> <li>• 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).</li> <li>• 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.</li> </ul> <p>b. You must assess declines in NRI using these parameters:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>		
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 109: Commercial Leases</a> .
9	PLUS	Actual income from <a href="#">STR</a> units.
10	MINUS	10% of the actual commercial space income (total of Items 8 plus 9). <sup>3</sup>



REQUIRED UNDERWRITTEN NCF (CONVENTIONAL LOANS)		
Item	Function	Description
11	PLUS	Commercial parking income (e.g., public parking) that does not exceed actual trailing 12-month collections. <sup>3</sup>
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: <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)
CALCULATION OF OPERATING EXPENSES		



**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 <b>Property</b> 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 <b>Property</b> contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and</li> <li>• the <b>Borrower's</b> 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 <b>Property</b>; and</li> <li>• apply an appropriate increase over the prior year's operations in determining an estimate; and</li> <li>• include all <b>STR</b>-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 (exclude any portion of a non-arm's length property management fee that is subordinated to the Mortgage Loan); or</li><li>• market property management fee.</li></ul>

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.



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% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); 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>▪ <a href="#">Mortgage Loan</a> amount, or</li> <li>▪ assessed value.</li> </ul> </li> </ul> </li> </ul> <p>You must:</p> <ul style="list-style-type: none"> <li>• consider any automatic tax reassessment upon acquisition in the next 12-month period; and</li> <li>• for any tax abatement, exemption, deferral, or <a href="#">PILOT</a> expiring within 36 months after the <a href="#">Mortgage Loan Origination Date</a>, underwrite fully assessed real estate taxes.</li> </ul> <p>If the <a href="#">Property</a> has real estate tax abatements, exemptions, deferrals, or <a href="#">PILOTs</a>, 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 <a href="#">Mortgage Loan</a> such that Fannie Mae or a subsequent owner will retain the abatement, exemption, deferral, or <a href="#">PILOT</a> (i.e., it is tied to the <a href="#">Property</a> 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>• 110% of the current expense, for insurance policies with a remaining term less than 6 months.</li> </ul>
17(d)	MINUS	<p>Utilities, including the following:</p> <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>



**REQUIRED UNDERWRITTEN NCF  
(CONVENTIONAL LOANS)**

Item	Function	Description
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	<p>Payroll and benefits, including the following:</p> <ul style="list-style-type: none"><li>• 401k;</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	<p>General and administrative, including the following:</p> <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>• on-going costs associated with any <a href="#">Interest Rate Cap Agreement</a>;</li> <li>• other expenses/costs; and</li> <li>• for <a href="#">STR</a>:               <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 <a href="#">STR</a> income and an equivalent market rate apartment rent (as if leased as an apartment unit). For example, if actual lease <a href="#">STR</a> 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.</li> </ul> </li> </ul> <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 <a href="#">Interest Rate Cap Agreement</a>;</li> <li>• interest;</li> <li>• legal fees associated with securing <a href="#">Mortgage Loans</a>;</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 Part II, Chapter 4: Inspections and Reserves, Section 404: Replacement Reserve.</li> </ul> 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	<p>Annual debt service for the <a href="#">Mortgage Loan</a> 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 <a href="#">Form 4660</a>.</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 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 calculating 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	<ul style="list-style-type: none"> <li>• Student Housing Properties,</li> <li>• Dedicated Student Housing Properties,</li> <li>• Structured Transactions, and</li> <li>• Mortgage Loans secured by multiple Properties</li> </ul>	2%.
	Multifamily Affordable Housing Properties	<p>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:</p> <ul style="list-style-type: none"> <li>• 2% for restricted units; and</li> <li>• the rent growth published in DUS Gateway for the Property's submarket for unrestricted units.</li> </ul> <p>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 <math>(20/100 \times 2\%) + (80/100 \times 4\%)</math>.</p>
	All other Mortgage Loans	the rent growth rates published in DUS Gateway for the Property's submarket.
Economic Vacancy	All Mortgage Loans	the underwritten economic vacancy rate.



<p>Real Estate Taxes</p>	<p><u>All California Mortgage Loans Properties</u></p>	<ul style="list-style-type: none"> <li>• for California:             <ul style="list-style-type: none"> <li>- acquisitions, use 2%; or</li> <li>- refinances, no trending is required until the year when the actual tax bill would surpass the underwritten taxes, then trend by 2%; and</li> </ul> </li> <li>• for all other <u>Mortgage Loans</u>:             <ul style="list-style-type: none"> <li>- use 3%; or</li> <li>- if an abatement expires or taxes are expected to rise during the <u>Mortgage Loan</u> term, increase taxes to the expected level, then trend by 3%; or</li> <li>- if an abatement, exemption, deferral, or <u>PILOT</u> begins phase out or expires within 5 years after the <u>Maturity Date</u>, use fully assessed real estate taxes.</li> </ul> </li> <li>• <u>acquisitions, 2%; or</u></li> <li>• <u>refinances, no trending is required until the year when the actual tax bill would surpass the underwritten taxes, then trend by 2%.</u></li> </ul>
	<p><u>Non-California Properties</u></p>	<ul style="list-style-type: none"> <li>• <u>use 3% for</u> <ul style="list-style-type: none"> <li>- <u>Structured Transactions, and</u></li> <li>- <u>Mortgage Loans secured by multiple Properties; and</u></li> </ul> </li> <li>• <u>for all other Mortgage Loans, use the growth rates published in DUS Gateway for the Property.</u></li> </ul>



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

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

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	<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>
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>



New Construction	
Construction Financing Costs	Expenses for: <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 <a href="#">Cost Certification</a> .

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 <a href="#">NCF</a> 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.