Multifamily Mortgage Business Lender Memo 18-02

To: Multifamily Lenders

From: Manuel Menendez, Senior Vice President and Multifamily Chief Credit Officer

Subject: Lender Memo 18-02 | Updated Underwriting Requirements for Moderate Rehabilitation Mortgage Loans and Supplemental Mortgage Loans

HIGHLIGHTS

Effective June 11, 2018, Fannie Mae is increasing delegation to Lenders and streamlining underwriting requirements for Moderate Rehabilitation Mortgage Loans and Supplemental Mortgage Loans by:

- lowering the minimum Rehabilitation Work requirements to $8,000/unit from $10,000/unit for a Moderate Rehabilitation Mortgage Loan;
- modifying the “New Loan” test requirements for a Supplemental Mortgage Loan and clarifying the calculations used to determine the maximum amount of the Supplemental Mortgage Loan; and
- clarifying the debt service requirements for an interest-only Supplemental Mortgage Loan.

Increased Delegation

To increase Lender delegation and create a more competitive product, Fannie Mae is revising the underwriting requirements for Moderate Rehabilitation Mortgage Loans in Part IIIB, Chapter 3, and Supplemental Mortgage Loans in Part IIIC, Chapter 2 of the Multifamily Selling and Servicing Guide.

Moderate Rehabilitation Mortgage Loans:

The required amount of Rehabilitation Work has been decreased to $8,000 per unit from $10,000 per unit (based upon the total number of residential units at the Property rather than the number of units actually being rehabilitated). At least 60% of the renovation budget should to be allocated to interior unit upgrades or renovations.

Supplemental Mortgage Loans:

1. The calculation of the “New Loan” test and when it applies have also been modified. The test now applies only to a Supplemental Mortgage Loan when the Senior Mortgage Loan matures 5 years or less after the Mortgage Loan Origination Date of the Supplemental Mortgage Loan. The minimum Debt Service Coverage Ratio (DSCR) and maximum Loan-to-Value (LTV) ratio required for the Supplemental Mortgage Loan apply to the New Loan test. When the New Loan test must be used to
determine the maximum amount of the Supplemental Mortgage Loan, the calculation must now be based on the greater of:

- the current actual interest rate; or
- the Underwriting Interest Rate Floor for a Tier 2 Mortgage Loan having a 10 year loan term in a “Nationwide Market”, as set forth in the Multifamily Underwriting Standards (Form 4660).

2. The amortizing debt service amount for the Pre-Existing Mortgage Loan must be used to determine the maximum amount of a Supplemental Mortgage Loan, regardless of the amortization type for the Pre-Existing Mortgage Loan. The amortizing debt service amount is based on:

- the Gross Note Rate for a fixed rate Mortgage Loan; or
- the origination loan amount, amortization term, and variable underwriting rate for an adjustable rate Mortgage Loan.

3. Concurrently with this Lender Memo, the Loan-to-Value Ratio requirements for Supplemental Mortgage Loans are being updated in the Form 4660.

Effective Date

This Lender Memo is effective June 11, 2018.

Questions

Please contact Katya Hill at (202) 752-3820 (or katya_hill@fanniemae.com), with any questions.