Multifamily Mortgage Business Lender Letter 13-06

July 9, 2013

To: Multifamily Lenders

From: Rob Levin, Vice President for Multifamily Credit Risk Management, Underwriting

Subject: Lender Letter 13-06 | Additional Guidance for Analyzing Cash Out Transactions

**HIGHLIGHTS**

- Fannie Mae provides additional guidance on cash out transactions.

**Note:** This Lender Letter is for information purposes only – no action is required. Capitalized terms not otherwise defined in this Lender Letter have the meanings set forth in the Multifamily Selling and Servicing Guide.

**Introduction**

Part IIIA, Section 101 of the Guide requires Lenders to analyze all reasonably identifiable strengths and weaknesses of Mortgage Loans intended to be sold to Fannie Mae. In accordance with such requirement, Lenders are expected to examine the risk of allowing “cash out” to the Borrower (see the Multifamily Underwriting Standards (Form 4660) for a description of cash out transactions). This Lender Letter provides additional guidance on cash out transactions.

**Cash Out Analysis**

In accordance with the Lenders’ obligations under Part IIIA, Section 101, Fannie Mae expects, at a minimum, that the underwriting analysis of a cash out transaction consider:

- The amount of hard equity remaining in the Property;
- The length of time the Borrower has owned the Property;
- The effective age and current physical condition of the Property (including any improvement in the asset quality over the ownership period); and
- The improvement in the Property’s operations (i.e., NOI) and value over the ownership period (and the Lender should be able to distinguish between an increase in value that is attributable to an increase in the Property’s NOI versus a change in the Capitalization Rate).
The Lender’s analysis, conclusions and any risk mitigants all should be discussed in the Transaction Approval Memo.

Examples of factors that support cash out transactions include:

- Retention by the Borrower of at least 10% hard equity in the Property;
- Ownership of the Property by Borrower for a reasonable period of time when considering the extent of cash out proceeds;
- Maintenance of the Property in good condition, or improvement of the condition of the Property during the ownership period;
- Improvement in the Property’s operations and NOI over the ownership period; and
- An increase in the Property’s value over the ownership period attributable to an increase in NOI.

**Effective Date**

This Lender Letter is effective immediately.

**Contact Us**

Please contact your Fannie Mae Deal Team if you have any questions.