

# **Fannie Mae Multifamily**

## **Refining the Model - Updated Preferred and Common Equity Guidance**

**June 2026**

# Agenda

1. Goals
2. Overview of Latest Update
3. Preferred Equity Sizing Example
4. Questions



# Priorities for Enhancing Framework for Preferred Equity (“PE”) and Structured Common Equity (“SCE”)

## Product & Strategy

- Expand PE Options
  - ❖ Created Mandatory Pay PE
- Enhance Insight into Third-Party Equity Investor Rights
  - ❖ Define Acceptable Default Triggers
  - ❖ Define Acceptable Investor Rights

## Process & Execution

- Streamline and Delegate Review
- Track PE and SCE in Fannie Mae’s Portfolio



# Key Challenges with Form 6441

- PE definition too expansive - captures too many transactions
- Checklist application to Common Equity is confusing and too restrictive
- Key Principal underwriting misaligned with investor expectations
- Forced Sale and Redemption right restrictions are too rigid
- Permitted Equity Default Triggers list is too narrow
- Limitations on Equity Terms lacked flexibility



**TOO MANY WAIVER REQUESTS!**

# Goals of Latest Guide and Checklist Updates

1

## Define Structured Common Equity

- Clarifies intent of current Guide
  - Limits review to Part III of the Checklist
  - No limitations for Buy/Sell Redemption Rights
- Included in Loan Agreement riders

2

## Expand Lender Delegation

- Narrow the Preferred Equity Definition
- Delegate more approval of Permitted Equity Default Triggers
- Investor is now required to be a Principal vs. a Key Principal
  - subject to additional underwriting due diligence in certain instances

3

## Expand Investor Rights

- Add New Permitted Equity Default Triggers
- Expand Investor Redemption and Forced Sale rights
- Clarify or expand the Limitation on Equity Terms (Part III)

4

## Streamline the Checklist

- Renamed to Equity Checklist
- Includes a summary of underwriting pre-review and other requirements
- Adds and consolidates definitions
- Adds examples of equity structures not subject to the Checklist



# Core Definitions

## Structured Common Equity (NEW):

A Common Equity structure that includes a **Forced Sale** right or a **Control Takeover** right.

### Forced Sale

The right of the Equity Investor to require a sale of the Property

### Control Takeover

The right of the Equity Investor to:

- Change Control of the Borrower; or
- Effect a transfer of any ownership interest in Borrower, Key Principal or Guarantor not permitted under the Loan Agreement

# Core Definitions *(continued)*

## Preferred Equity (REVISED):

A direct or indirect investment in the Borrower for which the Governing Document provides such Equity Investor with:

- 1) an asset management fee or any other fee before Returns are paid to the investors, or
- 2) preferred or unequal rights to receive Returns relative to other Equity Investors.

Preferred Equity does not include payments to the following:

- a) a REIT Equity Investor from Excess Net Cash Flow; or
- b) an Equity Investor in the form of:
  - (x) payments or a promote returns after pari passu payments are made to all Equity Investors based on a specified minimum IRR or Returns threshold, or
  - (y) repayments of a protective advance to pay debt service or other amounts due under the Loan Documents, or any other amounts reasonably required for the operation and maintenance of the Property



# Equity Structures Not Subject to Checklist

- Both Sponsor and Equity Investor are Underwritten and Named as Key Principals/Guarantors
- There are several Equity Investors which have Control Takeover or Forced Sale rights based on a majority vote and no Equity Investor is a Principal
- No Equity Investor has:
  - Control Takeover
  - Forced Sale rights or
  - the right to remove an Affiliate Property Manager
- An Equity investment made solely for the allocation of LIHTCs

# Permitted Equity Default Triggers (PE Only)

Violation of Non-recourse Carveouts

Mortgage Loan Defaults

Unauthorized Action or Deadlock on Major Decisions

The right to terminate an Affiliated Property Manager

Failure to meet a Minimum Return Threshold (Mandatory or Hard Pay PE)

Failure to apply cash per operating agreement

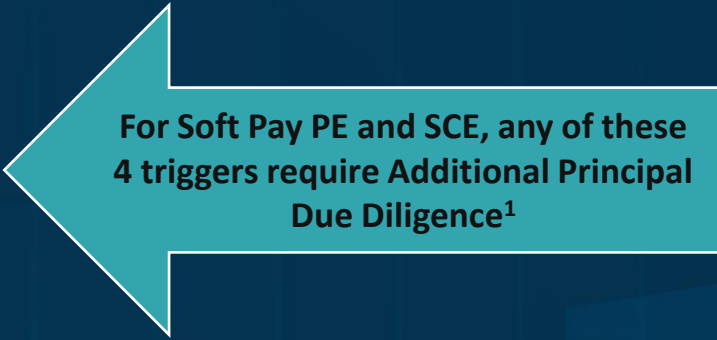
Key Principal or Controlling Party Bankruptcy

Failure to make capital contribution

Felony, fraud, false statements, death and incompetence

Anticorruption/Know Your Customer Policies


Taxation Treatment



For Soft Pay PE and SCE, any of these 4 triggers require Additional Principal Due Diligence<sup>1</sup>



New



Lenders have discretion to approve “substantially similar” triggers



New

<sup>1</sup> These 4 triggers are not permitted on new Soft Pay PE in an Assumption

# Limitation on Equity Terms

- No Remedies other than Control Takeover, Forced Sale, lawsuits or increased returns
  - Added right to remove Affiliated property manager in connection with a Control Takeover
- No Redemption or Buy/Sell Provision that Forces a Redemption before YM or within 5 Years (For PE Only)\*\*
- No Cash Sweeps except:
  - For PE after a Permitted Equity Default
  - For SCE, after a default in the Governing Documents
- Fixed Return Rate without Escalations
- No Cash or Collateral Benefiting the Equity Investor
- Equity Required to be full funded (For PE Only)
- No Side Agreements

New

\*\* For Structure Common Equity, if Redemption or Buy/Sell Rights exist during the Loan Term, Additional Principal Due Diligence is Required



# Limitation on Equity Terms *(continued)*

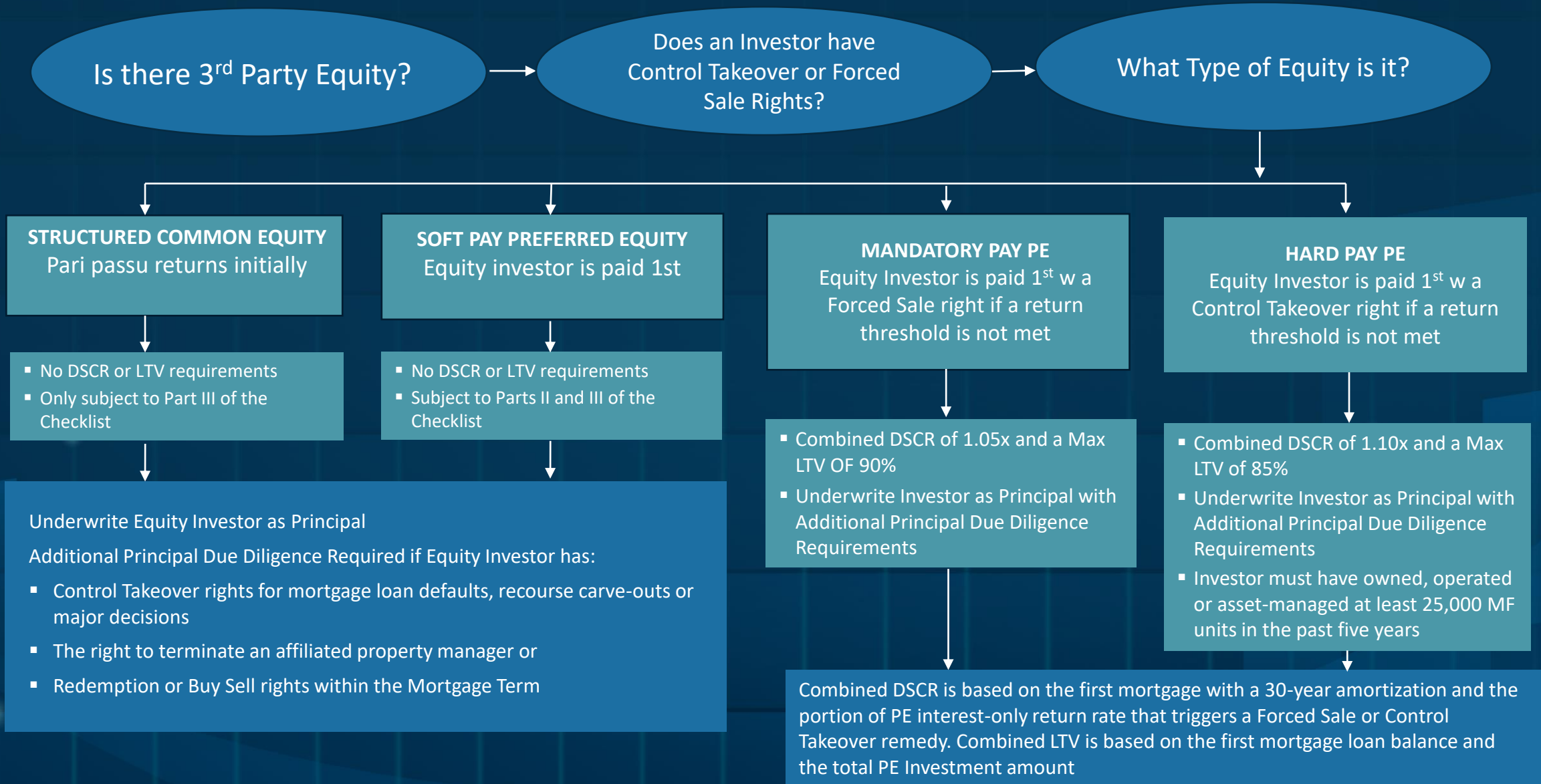
- Cross-Collateral or Cross-Default Limitations unless related Mortgage Loans are also crossed
  - For PE, remedies for fraud, gross negligence or willful misconduct related to affiliate owned properties are permitted
  - For SCE, remedies for Permitted Equity Defaults related to affiliate owned properties are permitted
- Limited Rights to Acquire Additional Equity Interests
- Subordination of Guarantees to Mortgage Loan Guarantees
  - Removed requirement to match Fannie Mae guarantee forms
- No Economic Thresholds
- No Seller Financing
- Ineligible Loans (can be considered on a pre-review basis (For PE Only))
- Right to remove an Affiliated Property Manager may only occur in connection with a Control Takeover (For PE Only)\* \*\*

New

\*\*\* Requires Additional Principal Due Diligence



# Underwriting Equity Analysis



# Preferred Equity Sizing Example



ABC Property	
Deal Name	ABC Property
Sponsor	Regional Sponsor
City/State	Atlanta, GA
Purpose	Acquisition + Rehab
Units / YOC	334 / 2001 (Renovated in 2023)
UW Value	\$54,182,755
Cap Ex (not Escrowed)	\$3,750,000
Total Capitalization	\$57,932,755
UW NCF	\$2,984,610
Loan / IO Term	5 -Years / 5 – Years
Amortization	30-Year
Mission	14% @ 60% AMI/ 93.4% @ 80% AMI



Deal Metrics	Soft Pay PE	Mandatory Pay PE	Hard Pay PE
UPB DUS 1 <sup>st</sup> Lien	\$33,023,755	\$33,023,755	\$33,023,755
Actual LTV DUS 1 <sup>st</sup> Lien	60.9%	60.9%	60.9%
Interest Rate DUS 1 <sup>st</sup> Lien	6.04%	6.04%	6.04%
Amortizing DS	\$2,386,130	\$2,386,130	\$2,386,130
Amortizing DSCR DUS 1 <sup>st</sup> Lien	1.25x	1.25x	1.25x
Total PE Rate/Minimum Return	12.75%/N/A	12.75%/4%	12.75%/4%
PE Amount	\$11,408,894 (1)	\$11,408,894	\$8,178,797
Combined-DSCR (1 <sup>st</sup> Mortgage + PE)	N/A	1.05x (1 <sup>st</sup> mortgage on a 30-year amort. & the Minimum Return on an actual basis)	1.10x (1 <sup>st</sup> mortgage on a 30-year amort. & the Minimum Return on an actual basis)
Combined LTV (1 <sup>st</sup> Mortgage + PE)	N/A	82% (subject to a maximum LTV of 90%)	76% (subject to a maximum LTV of 85%)

(1) Not restricted by DSCR or LTV constraints so it could be higher or lower.

# ABC Property Preferred Equity Exit Analysis



Example is based on a Mandatory Pay PE Scenario

ABC Property - Preferred Equity ("PE") Exit Analysis					
Year	1	2	3	4	5
NCF	2,984,610	3,432,301	3,775,532	4,039,819	4,241,810
Senior Loan Debt Service (Interst Only)	1,994,635	1,994,635	1,994,635	1,994,635	1,994,635
Sale					33,546,000
Cash Flow Remaining for Equity Waterfall	989,975	1,437,667	1,780,897	2,045,184	35,793,175
1. Minimum Return @ 4%	456,360	456,360	456,360	456,360	456,360
2. Minimum Return @4% + 2.5% (a/k/a Current Return)	285,225	285,225	285,225	285,225	285,225
	6.5%	6.5%	6.5%	6.5%	6.5%
Remaining Cash Flow	248,390	696,082	1,039,312	1,303,599	35,051,590
3. Sponsor Asset Management Fee - 2%	59,692	68,646	75,511	80,796	84,836
Remaining Cash Flow	188,698	627,436	963,801	1,222,803	34,966,754
4. Sponsor Common Equity Return - until 6.50% earned	188,698	627,436	963,801	1,222,803	15,100,054
Remaining Cash Flow	0	0	0	0	19,866,700
5. PE Return Rate that Accrues (6.25%)/Total PE Rate of 12.75%	0	0	0	0	16,010,000
Remaining Cash Flow	0	0	0	0	3,856,700
Common IRR					10.89%
PE IRR					12.75%
Debt Yield at Loan Exit					12.84%
First Mortgage Refinance Max Rate					9.71%

Sources			Uses		
Common Equity	\$13,500,000	23.3%	Purchase Price	\$53,000,000	91.5%
Preferred Equity	\$11,409,000	19.7%	Cap Ex - No Escrow	\$3,750,000	6.5%
First Mortgage	\$33,023,755	57.0%	Closing Costs	\$1,182,755	2.0%
<b>Total Sources</b>	<b>\$57,932,755</b>	<b>100.0%</b>	<b>Total Uses</b>	<b>\$57,932,755</b>	<b>100.0%</b>

# Requested Changes We Did Not Make

- Require the Checklist for ONLY Hard Pay Preferred Equity
- Eliminate Part II (Permitted Event of Default Triggers)

## Our Rationale

Not aligned with the strategic objectives of the initial Guide update to:

- Promote a consistent approach to PE and SCE
- Clarify PE requirements for all lenders
- Provide Preferred Equity execution options for investors previously resistant to pursue a Fannie Mae execution

- Permit a Forced Sale at any time during the loan term for all transactions

## Our Rationale

Allowing a Forced Sale at any time can add financial pressure to the Key Principal/Guarantor upon which we are reliant:

- For SCE, we are permitting Forced Sale at any time
- For PE, Forced Sale is permitted at the later the end of yield maintenance or Year 5 of the loan



# Requested Changes We Did Not Make *(continued)*

- Eliminate Mandatory Pay Preferred Equity category which allows for a Force Sale tied to a Minimum Return

## Our Rationale

This Equity category ensures transactions with this additional financial pressure on the Key Principal/Guarantor are more conservatively sized to our prescribed loan sizing requirements.

- Other changes to the Limitations on Equity (Part III) and eliminate some Exhibits

## Our Rationale

Many requested changes were accepted. Overall, we believe the final Part III Limitations are reasonable. We limited the scope of completion for some exhibits.

# Delegation and Pre-Review

## ■ DELEGATED

- Structured Common Equity compliant with the Equity Checklist
- Soft Pay Preferred Equity compliant with the Equity Checklist

## ■ PRE-REVIEW

- Mandatory Pay Preferred Equity
- Hard Pay Preferred Equity
- Structured Common Equity and Soft Pay Preferred Equity not fully compliant with the Equity Checklist





# Alignment with Asset Management

## Transfer/Assumption

- Form 6441 is required for all Transfers/Assumptions involving Structured Common Equity or Preferred Equity, regardless of pre-approval status under the Loan Documents
- Form 6441 ensures that equity types and any changes to equity structure are properly documented
- Fannie Mae pre-review and post-closing review requirements are consistent
- New Mandatory Pay or Hard Pay Preferred Equity is not permitted unless the Preferred Equity structure was disclosed at loan origination

Loans with Preferred Equity and Structured Common Equity will be tracked post-closing

# Core Operating Procedures

Enter the PE Type in DUS Gateway (Required field under Details):

- Not Applicable;
- Hard Preferred Equity;
- Mandatory Preferred Equity;
- Soft Preferred Equity; or
- Structured Common Equity



Under Deal Participants, enter Equity Investor as a Principal w/ "Preferred Equity Investor" as the Deal Participant Role for Preferred Equity and "Equity Provider" for Structured Common Equity



Complete the Equity Checklist (Form 6441). Upload to Gateway if Pre-review and/or as a Delivery Document (only required at Delivery if not pre-review)

## Benefits

- Better insight into the roles of FNMA sponsors across the equity capital stack
- The ability to track Preferred Equity and Structured Common Equity structures in the portfolio to assess risk

# Practice Tips for Form 6441

- ❑ Form 6441 must be reviewed if:
  - There is Structured Common Equity or Preferred Equity,
  - No exclusion from the checklist apply (Exhibit F of the Checklist) and
  - The equity investor has a Forced Sale or Control Takeover right
- ❑ Mandatory Pay and Hard Pay PE have sizing limitations and other limitations
- ❑ Equity Investors subject to the Checklist must be underwritten as Principal and Additional Principal Due Diligence may also be required
- ❑ Lenders may approve “substantially similar” Permitted Equity Default Triggers in Part II
- ❑ For Structured Common Equity, the following do not apply:
  - Part II
  - The Part III Limitations regarding:
    - Redemptions and Buy/Sell Rights
    - Fully funded equity
    - Right to remove an Affiliated Property Manager
    - Ineligible Loans



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