

ASSET UNDERWRITING / BORROWER FIELD GUIDE

Mixed-use underwriting guide

Keep residential and commercial income, vacancy and costs distinct within one property.

A mixed-use property should be modeled as connected but distinct income components. Apartments, shops, offices and other space can have different lease terms, collection patterns, expense responsibilities and lender treatment. The central question is whether the combined economic cash flow and the cash flow accepted for the chosen financing both support the transaction.

Reconcile components before consolidating

Build separate residential and commercial schedules, then reconcile them to one property ledger. Identify unit counts, rentable areas, vacant space and shared facilities. Allocate common expenses with a documented method and retain direct costs in the relevant component. Intercompany rent and internal reimbursements must not create extra income when the owner controls both sides.

Distinguish economic income from channel treatment

A property may collect commercial rent that a particular financing channel treats differently when underwriting multifamily debt. Preserve an economic cash-flow column and a separate lender-adjusted column. Fannie Mae's conventional NCF calculation identifies commercial-income treatment in a program-specific framework; this guide does not prescribe a commercial-space or income eligibility limit. Confirm the current rule and property classification with the lender.

Stress the weak component and shared obligations

Model commercial vacancy without assuming apartment income automatically fills the resulting gap. Some common costs continue while the commercial unit is empty, and re-leasing capital can fall due before rent starts. Conversely, residential turnover can coincide with a commercial expense true-up. Show the timing of each component and the property's total funding need, including any legal or structural dependence between uses.

Use this guide with the matching Excel model. Illustrative assumptions are editable; no lender approval, market quote or universal threshold is represented.

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What the lender needs to understand

Preparation questions and evidence to resolve them. Actual requests and acceptance standards depend on the lender and transaction.

01 / Do all areas and income streams reconcile?

Unit and space schedules matched to plans, leases and the general ledger.

02 / How are common costs allocated?

Written allocation basis, actual invoices and lease recovery provisions.

03 / What income will the selected lender accept?

Current program classification and a written lender cash-flow reconciliation.

04 / Can residential income carry vacant commercial space?

Separate component operating results and a dated commercial re-leasing budget.

05 / Are uses legally and physically compatible?

Occupancy evidence, title, easements and relevant technical reports.

06 / What funds simultaneous turnover and capital needs?

Monthly combined cash plan with verified uncommitted equity.

Turn the request list into an evidence ledger

For each material question, record the document and date, the responsible owner, the unresolved fact, the party who can accept it, and the financing consequence if it remains unresolved. A file delivered to a lender is not necessarily an accepted answer.

Evidence state: requested / received / reconciled / accepted / still conditional. Preserve the lender response and avoid treating an unanswered question as approval.

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Document checklist: cash flow and collateral

Use a consistent cutoff date. Mark missing items, conflicts and explanations rather than simply counting files.

Cash flow and operations

Document / evidence request	Received / open
Residential rent roll and commercial tenant schedule kept separately.	[] _____
Executed residential and commercial leases, concessions and amendments.	[] _____
Collections and arrears by component, with bank reconciliation.	[] _____
Monthly operating statements and direct-versus-shared expense ledger.	[] _____
Expense allocation method and commercial recovery calculations.	[] _____
Lender-adjustment bridge showing excluded or differently treated income.	[] _____

Property and collateral

Document / evidence request	Received / open
Floor plans, unit and area reconciliation and actual-use evidence.	[] _____
Title, survey, access, shared facilities and recorded restrictions.	[] _____
Condition reports separating residential, commercial and common systems.	[] _____
Fire, life-safety, separation and other issues identified by qualified reviewers.	[] _____
Commercial re-leasing or conversion work scope and bids.	[] _____
Environmental and other third-party reports for the actual combined property.	[] _____

Reconciliation note

The schedules should agree with the source documents or identify the exact reason for a difference. Keep the source amount, the adjustment and the lender-accepted amount visible as separate fields.

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Document checklist: sponsor and closing

Confirm who provides the money, when it is available and what evidence permits the transaction to fund.

Sponsor and execution

Document / evidence request	Received / open
Sponsor experience managing both residential and commercial tenants.	☐ _____
Entity chart and any related-party business or lease relationships.	☐ _____
Property management and commercial leasing responsibilities.	☐ _____
Liquidity after committed improvements and other debt obligations.	☐ _____
Debt and guaranty schedule across the sponsor's portfolio.	☐ _____
Equity evidence for the combined downside funding requirement.	☐ _____

Closing and funding

Document / evidence request	Received / open
Written lender confirmation of the applicable property/program classification.	☐ _____
Requested tenant confirmations, consents and assignment documentation.	☐ _____
Complete sources and uses, including component-specific repair holdbacks.	☐ _____
Insurance and escrow instructions for the actual combination of uses.	☐ _____
Existing debt payoff and any partial-release requirements.	☐ _____
Dated unresolved-items log with a separate owner for each component.	☐ _____

Before committing the next dollar

- ☐ Prove the physical inventory and total ledger reconcile before comparing lenders.
- ☐ Maintain separate economic and lender-accepted cash-flow columns.
- ☐ Fund the weaker component through the date replacement collections are supportable.

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Use the model and reconcile the result

mixed-use-underwriting-model.xlsx | Summary, Assumptions, Use Components, Operations, Debt and Funding, Review

- 1. Use Assumptions!D5 for Base (1) or Downside (2), and the labeled scenario input rows. Enter source data in Use Components!D10:L21; preserve formula cells and an untouched workbook copy.
- 2. Keep residential and commercial source inputs distinct and reconcile their combined costs. A lender adjustment changes accepted sizing cash; it does not determine mixed-use program eligibility.
- 3. Reconcile Operations to Summary. Apply the entered lender adjustment separately to the modeled cash flow. Sizing uses amortizing debt service, while first-year payments reflect the entered interest-only period.
- 4. In Assumptions, replace illustrative value, LTV, DSCR, debt yield, rate, amortization and requested ceiling with the intended scenario. Review capacities in Debt and Funding. The smallest modeled capacity does not establish eligibility or approval.
- 5. Closing equity includes the entered opening cash and restricted reserves. Additional operating cash need is measured after that opening cash, so do not add it twice. Inspect monthly cash and remaining principal at maturity.
- 6. Read Review for model conventions and limitations. Save each scenario with its supporting evidence and date; actual lender definitions, legal rights and professional findings control the transaction.

Worked example: editable teaching assumptions

Illustrative Base / Downside inputs: Property value \$6,000,000 / \$5,200,000; Annual note rate 6.50% / 8.00%; Maximum LTV 65.00% / 60.00%; Minimum sizing DSCR 1.25 / 1.3; Minimum debt yield 9.00% / 10.00%; Amortization after IO (years) 25 / 25; Initial interest-only months 6 / 6.

Illustrative result	Base	Downside
Modeled revenue / contribution	\$888,878	\$763,470
NCF after reserve	\$598,211	\$442,531
NCF used for sizing	\$598,211	\$417,531
Modeled loan	\$3,900,000	\$3,120,000
Binding sizing constraint	LTV	LTV
First-year debt service	\$284,748	\$269,284
Required closing equity	\$2,000,000	\$2,780,000
Equity left / (closing gap)	\$500,000	-\$280,000
Additional operating cash need	\$0	\$0
Equity left / (combined gap)	\$500,000	-\$280,000
Principal at modeled maturity	\$3,574,328	\$2,907,601

Base NCF used for sizing is \$598,211. The modeled loan is \$3,900,000, with LTV binding. Closing uses of \$5,900,000 less that loan require \$2,000,000 of equity. Available equity is \$2,500,000; the signed combined surplus/gap is \$500,000 after any additional operating cash need. Downside changes the loan to \$3,120,000 and the combined result to -\$280,000.

Dollar results rounded to the nearest dollar; the workbook retains precision. Signed funding surplus is negative for a shortage. A positive funding surplus remains subject to actual source availability.

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Review the risks and the evidence

- Do not apply a multifamily eligibility rule to an entire mixed-use building without confirming its classification.
- Allocating a shared cost differently changes component profit but should not change total property expense.
- Exclude the same lost rent only once when using both vacancy and lender income adjustments.
- A fully occupied apartment component does not erase a commercial repair or lease-up cash requirement.

Sources and applicability

Fannie Mae Section 203.02, Calculation of Commercial Income, was checked against the retained official September 28, 2026 PDF downloaded during same-day library research (PDF page 25). A new web-reader request returned 403. The citation supports program-specific income treatment, not a universal mixed-use percentage or eligibility conclusion.

1. Fannie Mae conventional underwritten cash-flow calculation | Section 203.02, Required Underwritten NCF table, Calculation of Commercial Income, PDF page 25, items 8-11 | Checked 2026-10-21

Only the separation principle is cited; all channel percentages and capacity assumptions in the example are fictional.

<https://mfguide.fanniemae.com/fnmf-pdf/download/6346>

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Mixed-use income: reconcile property economics to the proposed debt channel

Can apartment income refinance a mixed-use building with vacant commercial space?

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833-264-7776 | info@jakenfinancegroup.com

Education and analysis do not establish a financing offer, appraisal, legal opinion or program eligibility. Confirm the current source, actual contract terms and professional advice relevant to the transaction.