



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 1903.03 Forward Commitment Underwriting

### 1903.03A Generally

#### Requirements

You must:

- Underwrite, originate, and service a Forward Commitment Mortgage Loan as if it were an immediate funding Mortgage Loan.
- Agree to issue the Borrower Commitment.
- Determine the construction lender has
  - completed its underwriting, and
  - agreed to issue a construction financing commitment.
- Confirm the Investor will
  - issue its commitment to purchase the MBS, and
  - meet the Forward Commitment conditions, including timing.

### 1903.03B Construction and Feasibility Review

#### Guidance

You should:

- Assess the:
  - construction lender's capacity to fund and monitor the construction loan; and
  - ability of the development team and general contractor to
    - complete the project, and
    - post an acceptable bond or letter of credit for the construction lender.
- Review and approve the:
  - project budget, including construction contingencies, and align any deferred development fee to market rates;
  - LIHTC equity funding schedule;



- pro forma underwriting;
- feasibility of repaying the construction loan at conversion, including:
  - evaluating several stress-test scenarios such as a decline in rents, an increase in operating expenses, or other circumstances;
  - having the LIHTC investor or construction lender retain an appropriate portion of the development fee until specified construction and lease up milestones are met;
  - the sufficiency of the LIHTC investor's equity funding; and
  - the availability of other capital sources such as grants or subordinate debt;
- absorption schedule, including a capture band analysis of submarket income;
- Borrower organizational documents;
- Affordable Regulatory Agreements; and
- Subordinate Loan documents.

■ Ensure the Forward Commitment term is sufficient to allow for:

- the Property to be completed and leased;
- you to submit the conversion package;
- Fannie Mae to approve the conversion; and
- you to Deliver the permanent Mortgage Loan.

### 1903.03C Third-Party Reports

#### Requirements

If you and the construction lender use a single set of third-party reports for underwriting, the reports

- must be addressed to both lenders, but
- can be contracted and paid for by either lender.

#### Operating Procedures

You must obtain the following reports.



Report	Timing	You must...
Property Condition Assessment	Before Forward Commitment	Complete a PCA for all substantial rehabilitation properties.
	Before conversion	Obtain a PCA and complete the Replacement Reserve Schedule per <a href="#">Part II, Chapter 4: Lease Audits, Inspections, and Reserves</a> .
Environmental Site Assessment	Before construction	Obtain a Phase I ESA.
	Before conversion	<ul style="list-style-type: none"><li>• Obtain a new Phase I ESA.</li><li>• Obtain a Phase II ESA if recommended by the new Phase I ESA.</li><li>• Ensure any required remediation is complete before you Deliver the permanent Mortgage Loan.</li></ul>



Report	Timing	You must...
Architectural Review	Before Forward Commitment	<p>From an independent consulting architect, obtain an architectural review assessing the Property's</p> <ul style="list-style-type: none"><li>• preliminary plans and specifications,</li><li>• compliance with local building codes,</li><li>• site characteristics,</li><li>• choice of building materials and finishes,</li><li>• asset quality,</li><li>• marketability, and</li><li>• overall design appropriateness for the intended use.</li></ul>
	During construction	Use a consulting architect for in-field inspections.
	Final inspection	Require the consulting architect to conduct a final inspection confirming the Property: <ul style="list-style-type: none"><li>• was built according to the approved plans and specifications; and</li><li>• meets all applicable building codes and zoning requirements.</li></ul>
Appraisal	Before Commitment	Obtain an Appraisal per <a href="#">Part II, Chapter 2: Valuation and Income</a> .
	Before conversion	Obtain a new or updated Appraisal if <ul style="list-style-type: none"><li>• you request an increase in the permanent Mortgage Loan amount above the Forward Commitment terms, or</li><li>• Fannie Mae requires it.</li></ul>





You may use the same consulting architect as the construction lender if the consulting architect:

- is independent and not an employee of the construction lender;
- is retained directly by you and engaged separately by the construction lender; and
- acknowledges they may be required to make recommendations that do not align with those of the construction lender.



# Glossary

## A

Appraisal	<p>Written statement independently and impartially prepared by a qualified Appraiser stating an opinion of the Property's market value</p> <ul style="list-style-type: none"><li>• as of a specific date, and</li><li>• supported by the presentation and analysis of relevant market information.</li></ul>
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**Synonyms**

- Appraisals
- Appraisal's

## B

Borrower	Person who is the obligor per the Note.
	<p><b>Synonyms</b></p> <ul style="list-style-type: none"><li>• Borrowers</li><li>• Borrower's</li></ul>
Borrower Commitment	Your written commitment with the Borrower to originate a Mortgage Loan, and any separate written or oral rate lock agreements between you and the Borrower to rate lock the Mortgage Loan.

**Synonyms**

- Borrower Commitments

## C



## Commitment

Contractual agreement between you and Fannie Mae where Fannie Mae agrees to buy a Mortgage Loan at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and you agree to Deliver that Mortgage Loan.

### **Synonyms**

- Committed
- Commitments

## E

### Environmental Site Assessment

Investigation and resulting report (Phase I ESA or Phase II ESA) conducted per Environmental Due Diligence Requirements ([Form 4251](#)), identifying if a Property has Recognized Environmental Conditions or Business Environmental Risks.

### **Synonyms**

- ESA
- Environmental Site Assessments

## F

### Forward Commitment

Commitment to purchase a permanent Mortgage Loan for a to-be constructed or rehabilitated Property.

### **Synonyms**

- Forward Commitment's
- Forward Commitments

## I

### Investor

MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan.

### **Synonyms**

- Investors
- Investor's

## L



**Lease** Written agreement between an owner and the tenant of a Property stipulating the conditions for possession and use of real estate for a specified period of time and rent.

**Synonyms**

- Leases

## M

**MBS** Mortgage-Backed Security

**Mortgage Loan** Mortgage debt obligation evidenced, or when made will be evidenced, by

- the Loan Documents, or
- a mortgage debt obligation with a Fannie Mae credit enhancement.

**Synonyms**

- Mortgage Loans
- Mortgage Loan's

## P

**Phase I ESA** Environmental Site Assessment conducted per the current ASTM E-1527 standard and the resulting report.

**Synonyms**

- Phase I Environmental Site Assessment
- Phase I ESAs

**Phase II ESA** Environmental Site Assessment conducted per the current ASTM E-1903 standard, or any other post-Phase I ESA, and the resulting report.

**Synonyms**

- Phase II Environmental Site Assessment



**Property** Multifamily residential real estate securing the Mortgage Loan, including the  
• fee simple or Leasehold interest,  
• Improvements, and  
• personal property (per the Uniform Commercial Code).

**Synonyms**

- Properties
- Property's

**Property Condition Assessment** Assessment of the Property's physical condition and historical operation.

**Synonyms**

- PCA
- PNA
- Physical Needs Assessment
- PCAs

## R

**Replacement Reserve Schedule**

The Required Replacement Schedule to the Multifamily Loan Agreement ([Form 6001 series](#)) and the applicable parts of the Multifamily Loan Agreement (or other agreement approved by Fannie Mae), that evidence the:  
• Borrower's agreement to replace identified capital items and perform required maintenance;  
• terms for funding the identified capital item replacement and maintenance; and  
• disbursement of Replacement Reserve funds.

**Synonyms**

- Replacement Reserve Schedules

## S



## Subordinate Loan

Multifamily residential real estate loan secured by a Lien against the Property having a lesser priority than the Lien securing another multifamily residential real estate loan on the same Property.

### Synonyms

- Subordinate Loans