



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	<p>Require the consulting architect to conduct a final inspection confirming the Property:</p> <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	<p>Obtain a new or updated Appraisal if</p> <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>



Guidance



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

Written statement independently and impartially prepared by a qualified Appraiser stating an opinion of the Property's market value

- as of a specific date, and
- supported by the presentation and analysis of relevant market information.

### Synonyms

- Appraisals
- Appraisal's

## B

Borrower

Person who is the obligor per the Note.

### Synonyms

- Borrowers
- Borrower's

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