



Fannie Mae®

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 Part II, Chapter 4: Lease Audits, Inspections, and Reserves .
Environmental Site Assessment	Before construction	Obtain a Phase I ESA.
	Before conversion	<ul style="list-style-type: none">• Obtain a new Phase I ESA.• Obtain a Phase II ESA if recommended by the new Phase I ESA.• Ensure any required remediation is complete before you Deliver the permanent Mortgage Loan.



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">• preliminary plans and specifications,• compliance with local building codes,• site characteristics,• choice of building materials and finishes,• asset quality,• marketability, and• overall design appropriateness for the intended use.
	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">• was built according to the approved plans and specifications; and• meets all applicable building codes and zoning requirements.
Appraisal	Before Commitment	Obtain an Appraisal per Part II, Chapter 2: Valuation and Income .
	Before conversion	Obtain a new or updated Appraisal if <ul style="list-style-type: none">• you request an increase in the permanent Mortgage Loan amount above the Forward Commitment terms, or• Fannie Mae requires it.





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">• as of a specific date, and• supported by the presentation and analysis of relevant market information.
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Synonyms

- Appraisals
- Appraisal's

B

Borrower	Person who is the obligor per the Note.
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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.
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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