



Fannie Mae®

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# Multifamily Selling and Servicing Guide

Effective as of April 30, 2026

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## 1903.07 Permanent Loan Final Underwriting

### 1903.07A Generally

#### Requirements

Before converting, you must complete the permanent Mortgage Loan final underwriting.

Topic	You must...
DSCR and LTV	Ensure the Property complies with the committed DSCR and LTV.
Eligibility	Ensure: <ul style="list-style-type: none"><li>• The Borrower:<ul style="list-style-type: none"><li>- does not change;</li><li>- remains eligible; and</li><li>- still owns the Property.</li></ul></li><li>• The Key Principals:<ul style="list-style-type: none"><li>- do not change; and</li><li>- have not reduced their direct or indirect ownership interest and control over the Borrower or the Property.</li></ul></li><li>• There is no material adverse change in the condition, financial or otherwise, of<ul style="list-style-type: none"><li>- the Borrower,</li><li>- any Guarantor,</li><li>- any Key Principal, or</li><li>- the Property.</li></ul></li></ul>
Construction Loan Status	Ensure the Borrower <ul style="list-style-type: none"><li>• is current on the construction loan payments and not in default, and</li><li>• has not been delinquent during the previous 12 months.</li></ul>



Topic	You must...
Certification of Rent Roll	On the permanent Mortgage Loan Origination Date, certify with the Borrower there has been no material adverse change in the Certification of Project Rent Roll.
Equity Contributions	As of the permanent Mortgage Loan Delivery, obtain a Borrower certificate, or other Fannie Mae-accepted evidence, that all funds reflected on the Borrower's sources and uses of funds statement were: <ul style="list-style-type: none"><li>• received, including all equity contributions; and</li><li>• properly invested in the Property.</li></ul>
LIHTC Reservation or Allocation	If the Property is eligible for LIHTCs, verify the Borrower's IRS Form 8609 issued by the state housing finance agency reflects the required LIHTC amount.

### ➔ Guidance

Fannie Mae may defer the requirement to obtain IRS Form 8609 before conversion based on factors such as whether:

- the Property's financials exceed the pro-forma underwriting per the Forward Commitment;
- all other conversion criteria were met;
- the Borrower certified the Property complies with the LIHTC requirements;
- you and the tax accountant approved the cost certification;
- the Borrower submitted the cost certification to the state, with no anticipated significant adjustments;
- the LIHTC investor contributed at least 90% of their equity, with the remaining 10% withheld for any minor adjustments to the
  - Property tax depreciable basis,
  - adjusters, or
  - developer fee;
- the sources and uses of funds are in balance, and all required funds were received to complete and lease-up the Property;



- you have documentation confirming the IRS Form 8609 application and the state's acknowledgement of receipt;
- you expect to receive the IRS Form 8609 timely post-conversion;
- you will monitor receipt of IRS Form 8609 as a post-closing matter and deliver a copy to Fannie Mae; and
- the Borrower has experience complying with IRS Form 8609 in the specific state.

### 1903.07B Stabilized NCF

#### Requirements

You must:

- Confirm the Property will qualify for the full Commitment by
  - evaluating its performance, and
  - assessing whether it meets the projected
    - income,
    - expenses, and
    - NCF.
- Use the Forward Loan Conversion Analysis ([Form 4212](#)) to
  - annualize the certified project rent rolls,
  - compare pro forma and actual operating expenses, and
  - calculate the Property's stabilized NCF per
    - this Chapter, and
    - [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) or the applicable Part III chapter based on the specific product.
- Submit the Forward Conversion Analysis Summary ([Form 4618](#)) that verifies your Chief Underwriter's involvement and agreement with the analysis.

The permanent Mortgage Loan Delivery Package documentation must include:

- the percentage of the Property's occupied units categorized by



- bedroom configuration,
  - square footage, and
  - rent type (low income or market rate) delineating any Section 8 or other subsidized rental program tenants;
- the Property's actual Effective Gross Income for each of the previous 3 months, including only rental income and permitted other income from the units less any
- rent concessions,
  - reductions,
  - inducements, or
  - forbearance; and
- rental income by rent type (low income or market rate).

You must use the following table to calculate stabilized NCF.

STABILIZED NCF		
Item	Function	Description
1		For each of the most recent trailing 3 months before conversion: <ul style="list-style-type: none"> <li>• determine the Gross Potential Rent from an executed Certification of Project Rent Roll; and</li> <li>• confirm that at least 90% of the units were physically occupied by a Qualified Tenant with an acceptable Lease.</li> </ul>
	EQUALS	GROSS POTENTIAL RENT



STABILIZED NCF		
2	MINUS	<ul style="list-style-type: none"> <li>• Economic vacancy using the higher of               <ul style="list-style-type: none"> <li>- original Forward Commitment underwriting, or</li> <li>- actual annualized trailing 3-month operating statements.<sup>1</sup></li> </ul> </li> <li>• Include:               <ul style="list-style-type: none"> <li>- concessions if they                   <ul style="list-style-type: none"> <li>▪ are prevalent in the market, or</li> <li>▪ were used to achieve initial stabilization and will remain; and</li> </ul> </li> <li>- a re-leasing cost allowance if the Property has short term leases.</li> </ul> </li> </ul>
3	PLUS	For an MAH Property, include annualized other income per <a href="#">Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF</a> .
4	PLUS	Commercial income per <a href="#">Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF)</a> .
	EQUALS	EFFECTIVE GROSS INCOME
5	MINUS	<p>Line-by-line operating expenses using the higher of:</p> <ul style="list-style-type: none"> <li>• actual annualized trailing 3-month operating statements; or</li> <li>• original Forward Commitment underwriting, adjusted by substituting the following actual expenses, if known:               <ul style="list-style-type: none"> <li>- real estate taxes;</li> <li>- property liability and other insurance;</li> </ul> </li> <li>and               <ul style="list-style-type: none"> <li>- management fees.</li> </ul> </li> </ul>



STABILIZED NCF		
6	MINUS	Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 203.01: Underwritten Net Cash Flow (Underwritten NCF).
	EQUALS	STABILIZED NCF
1 Assess if there was any decline in NRI per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis.		

### 1903.07C Final Permanent Mortgage Loan Amount

#### Requirements

You must ensure the permanent Mortgage Loan amount is less than or equal to the Forward Commitment.

#### Operating Procedures

Steps	Actions
1	You must determine the permanent Mortgage Loan amount using the Forward Loan Conversion Analysis ( <a href="#">Form 4212</a> ).
2	If the Property's actual stabilized NCF before permanent Mortgage Loan Delivery is less than the original Forward Commitment underwriting, reduce the permanent Mortgage Loan amount to comply with the Forward Commitment DSCR and LTV.
3	If the permanent Mortgage Loan amount in Step 2 is less than the Forward Commitment Confirmation Mortgage Loan amount, verify the Borrower has secured a source of funds, whether debt or equity, to cover the difference.
4	Ensure any additional debt the Borrower incurs to cover the difference in Step 3, is only secured by a Lien on the Property if <ul style="list-style-type: none"> <li>• it is an MAH Property, and</li> <li>• the subordinate debt complies with <a href="#">Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing</a>.</li> </ul>



Steps	Actions
5	<p>If the permanent Mortgage Loan amount in Step 2 results in a loan curtailment,</p> <ul style="list-style-type: none"><li>• the Borrower must close the permanent Mortgage Loan at the reduced amount, and</li><li>• you must Deliver the permanent Mortgage Loan at the reduced amount.</li></ul>
6	<p>If the Property qualifies for additional financing beyond the Forward Commitment Confirmation Mortgage Loan amount, submit via DUS Gateway:</p> <ul style="list-style-type: none"><li>• a request for additional financing;</li><li>• your conversion documentation; and</li><li>• a comparative analysis showing the stabilized NCF is greater than the original Forward Commitment underwriting.</li></ul> <p>A new pre-conversion Appraisal is not required if the pre-construction Appraised Value and permanent Mortgage Loan amount comply with the Forward Commitment maximum LTV.</p>
7	<p>Any increase in the permanent Mortgage Loan amount approved by Fannie Mae will:</p> <ul style="list-style-type: none"><li>• be limited to the Maximum Loan Amount Increase percentage per the Forward Commitment;</li><li>• be made on the currently available terms and conditions; and</li><li>• not be approved simply because construction costs, cost overruns, or change orders were higher than expected.</li></ul>

### 1903.07D Third-Party Reports

#### Requirements

You must obtain third-party reports per [Part III, Chapter 19: Forward Commitments, Section 1903.03C: Third-Party Reports](#).



# 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

### Appraised Value

Appraiser's opinion of the Property's market value documented in the Appraisal, on an "as is" basis, unless use of an "as completed" basis is specifically permitted per the Guide.

#### **Synonyms**

- Appraised Values

## B

### Borrower

Person who is the obligor per the Note.

#### **Synonyms**

- Borrowers
- Borrower's

## 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

## D

**Delivery** Submission of all correct, accurate, and certifiable documents, data, and information with all applicable documents properly completed, executed, and recorded as needed, and any deficiencies resolved to Fannie Mae's satisfaction.

**Synonyms**

- Deliver
- Delivered
- Deliveries

**DUS Gateway** Multifamily pre-acquisition system, or any successor systems, recording deal registration, Pre-Review and/or waiver tracking, Mortgage Loan Commitments, and decision records.

## E

**Effective Gross Income** On an annual basis or any specified period, the total of Net Rental Income plus other income per [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) and the applicable products and features in Part III.

**Synonyms**

- EGI

## F



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

**Synonyms**

- Forward Commitment's
- Forward Commitments

## G

**Gross Potential Rent**      On an annual basis or any specified period, the total actual and potential rent for a Property per [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) and the applicable products and features in [Part III](#).

**Synonyms**

- GPR

**Guarantor**      Key Principal or other Person executing a

- Payment Guaranty,
- Non-Recourse Guaranty, or
- any other Mortgage Loan guaranty.

**Synonyms**

- Guarantors

## K

**Key Principal**      Person who

- controls and/or manages the Borrower or the Property,
- is critical to the successful operation and management of the Borrower and the Property, and/or
- may be required to provide a Guaranty.

**Synonyms**

- Key Principals
- Key Principal'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

**Lien** Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind.

**Synonyms**

- Liens

## **M**

**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

**Mortgage Loan Delivery Package** Loan Documents and underwriting material required in connection with the Delivery of a Mortgage Loan.

**Mortgage Loan Origination Date** Date you fund a Mortgage Loan to the Borrower.

**Synonyms**

- Mortgage Loan's Origination Date
- Origination Date

## **P**



## Project

Multifamily buildings

- on multiple Properties,
- owned by the same Borrower, and
- that comply with [Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership](#).

### **Synonyms**

- Projects

## 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

## R

### Replacement Reserve

Custodial Account the Borrower funds during the Mortgage Loan term for Replacements.

### **Synonyms**

- Replacement Reserves

## U

### Underwritten Net Cash Flow

Net Cash Flow as adjusted by the Lender per [Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis](#) and the applicable products and features in [Part III](#).

### **Synonyms**

- Underwritten NCF