Fannie Mae®

Multifamily Selling and Servicing Guide

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202.03 Valuation

202.03A Appraised Value

☑ Requirements

You must ensure:

- the Appraiser's engagement letter requires compliance with Instructions for Appraisers (Form 4827);
- the Appraiser provides an opinion of the market value on an "as is" basis;
- the Appraiser's opinion of the market value covers:
  - each separate Project per Part II, Chapter 1: Attributes and Characteristics, Section 103.01: Single Borrower Ownership; and
  - the aggregate market value of all Projects; and
- regardless of any allocation in the PSA, the Appraisers opinion of the market value excludes any value from any
  - Personal Property (only including fixtures if customarily valued as real estate in the market), and/or
  - Intangible Property (only including business value for Seniors Housing Properties).

You may also request the Appraiser provide an opinion of the Property's market value on an "as completed" basis, but you must only use an "as completed" value if all of the following apply:

- less than 12 months have passed between the
  - Borrower's Acquisition, and
  - Commitment Date;
- for any capital improvements completed after the Mortgage Loan Origination Date to be considered in an "as completed" value, they must be:
  - Immediate Repairs listed in the PCA; or
  - improvements identified by the Borrower, if you agree the improvements will add Property value;
- all capital improvements are included in either the



- Completion/Repair Schedule, or
- Rehabilitation Reserve Agreement;

- sufficient funds to complete all capital improvements are deposited into either the Completion/Repair Escrow or the Rehabilitation Reserve Account:
  - for capital improvements identified as Immediate Repairs, the funds must cover any higher funding percentage you require; and
  - for capital improvements identified by the Borrower, the funds must cover the estimated cost (including a cost overrun allowance); and
- all capital improvements must be completed within:
  - 12 months after the Mortgage Loan Origination Date, if identified by the Borrower; or
  - any shorter time period per Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 405: Completion/Repairs, if listed as Immediate Repairs.

202.03B Property's Ownership History

☑ Requirements

You must:

- analyze the Propertys financing and sale history for the last 3 years;
- for any Acquisition, review:
  - the PSA and deed; or
  - for the transfer of a Controlling Interest in the Borrower, the document conveying the ownership interest;
- address the following in your Transaction Approval Memo:
  - if an Acquisition occurred within the last 24 months, document the
    - circumstances of the sale, and
    - support for any increased Appraised Value by analyzing any
      - Net Cash Flow increases,
      - capitalization rate compression, and
      - value-add market drivers; and
  - if any stated sales price per the PSA differs from the transfer price per

the public records or third-party reports, investigate and document the discrepancy;

- if an Acquisition occurred, confirm the seller was the Property owner in the real estate records when the PSA was signed;
- evaluate the PSA to:
  - clearly identify the
    - seller, and
    - purchaser; and
  - confirm the:
    - PSA is complete with no redactions, and deliver a copy to the Appraiser;
    - parties identified in the PSA match the parties in the deed (or for the transfer of a Controlling Interest in the Borrower, the document conveying the ownership interest); and
    - sale was an arm's-length transaction where no affiliation or identity of interest exists between the seller and purchaser;
- review the deed and other Acquisition documents to confirm the individuals signing on behalf of the seller and Borrower are authorized to do so;
- review the final title company settlement statement on or before the Mortgage Loan Origination Date (including any adjustments to escrows and deposits made before closing) to confirm accuracy of the:
  - purchase price per the PSA;
  - closing costs; and
  - any cash in/out to the seller and purchaser; and
- in the Mortgage Loan Delivery Package, submit a copy of the:
  - PSA;
  - final deed (or for the transfer of a Controlling Interest in the Borrower, the document conveying the ownership interest); and
  - final title company settlement statement.

202.03C Underwriting Value

☑ Requirements

Your Underwriting Value must not exceed the Appraised Value, as reduced by necessary adjustments, accounting for:

- your analysis of the Property's sales history; and/or
- Property deficiencies that cannot be cured within 6 months after the Appraisal Date.

If less than 12 months have passed between the Borrower's Acquisition and the Commitment Date, your Underwriting Value must not exceed the lower of the

- Appraised Value, or
- sum of the:
  - Property's Acquisition price per the title company settlement statement;
  - cost of capital improvements or repairs that increase the Property's value, if:
    - completed and fully paid; or
    - sufficient funds for completion are deposited in the Completion/Repair Escrow or the Rehabilitation Reserve Account for a Moderate Rehabilitation Mortgage Loan per Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans:
      - on the Mortgage Loan Origination Date; or
      - over the rehabilitation period in the Completion/Repair Escrow or Rehabilitation Reserve Account for an MAH Property per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.02E: Initial LIHTC Equity; and
  - actual Acquisition costs, not exceeding 3% of the Acquisition price (but excluding all costs or fees paid to a Borrower Affiliate), including:
    - Origination Fee;
    - arm's length Acquisition fee (generally 1% - 2%) paid to an unrelated Person if documented in the settlement statement;
    - third-party report fees;
    - Borrower-paid legal fees incurred on your behalf;
    - title search and title insurance fees;
    - survey fees;
    - real estate and stamp taxes;
    - deed-recording fees; and

- credit report charges.

Actual Acquisition costs must exclude any prepaid operating expenses or deposits applied toward future operating expenses or Property improvements, including:

- prepaid or escrowed
  - real estate taxes, or
  - insurance premiums;
- prepaid
  - utilities,
  - Mortgage Loan interest (including any interest rate buydown expense),
  - rents, or
  - security deposits;
- funded
  - Replacement Reserve (including any initial deposit),
  - Interest Rate Cap cost,
  - operating or Restabilization Reserve, or
  - Borrower-controlled Property operating or capital accounts; and
- fees included in the Gross Note Rate, including any
  - Origination Fee, or
  - broker fee.

202.03D Allocated Value to Real Estate and Improvements

☑ Requirements

For any non-Seniors Housing Property Acquisition, you must review the PSA and the final title company settlement statement to determine if any portion of the Propertys Acquisition price is specifically allocated to Personal Property and/or Intangible Property.

If the Propertys Acquisition price allocates any portion to Personal Property and/or Intangible Property, the allocation is permitted if the Mortgage Loan amount in the Loan Documents, Delivered data, and final title company settlement statement, does not exceed 90.00% of the:

- Propertys Acquisition price; minus
- portion allocated to any other Intangible Property and/or Personal Property (excluding fixtures, if customarily valued as real estate in the market).

You must refer to Part III, Chapter 5: Seniors Housing Properties, Section 502.02: Ineligible Properties for a Seniors Housing Property.

Guidance

The following table is a sample calculation.

Sample Calculation	
Property's Acquisition price	$30,000,000
Appraised Value	$30,000,000
Underwritten Value	$30,000,000
Maximum 75% LTV	$22,500,000
Property's Acquisition price allocation:	$30,000,000
• minus any allocation to Personal Property and/or Intangible Property	- $5,000,000
• equals Property's Acquisition price allocated to real estate and Improvements	$25,000,000
Mortgage Loan amount must not exceed 90.00% of the Propertys Acquisition price allocated to real estate and Improvements	$22,500,000 ($25,000,000 X 90.00%)

Glossary

A

Acquisition	Any Purchase of either the: • Propertys fee simple or leasehold interest via a deed transfer; or • Controlling Interest in the Borrower. **Synonyms** • Acquisitions
Affiliate	When referring to an affiliate of a Lender, any other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender. When referring to an affiliate of a Borrower or Key Principal: • any Person that owns any direct ownership interest in Borrower or Key Principal; • any Person that indirectly owns, with the power to vote, 20% or more of the ownership interests in Borrower or Key Principal; • any Person Controlled by, under common Control with, or which Controls, Borrower or Key Principal; • any entity in which Borrower or Key Principal directly or indirectly owns, with the power to vote, 20% or more of the ownership interests in such entity; or • any other individual that is related (to the third degree of consanguinity) by blood or marriage to Borrower or Key Principal. **Synonyms** • Affiliates • Affiliate's

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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
Appraisal Date	Effective date of value in the Appraisal.
Appraised Value	Appraisers 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
Appraiser	Person engaged to estimate a Propertys market value per USPAP. **Synonyms** • Appraiser's • Appraisers

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
Commitment Date	Date a Commitment is confirmed by Fannie Mae per Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments.
Completion/Repair Escrow	Custodial Account funded on the Mortgage Loan Origination Date for Completion/Repairs or capital improvements per the Loan Documents.
Completion/Repair Schedule	The Required Repair Schedule to the Multifamily Loan Agreement (Form 6001 series) and the applicable parts of the Multifamily Loan Agreement, or other Fannie Mae-approved agreement, evidencing: • the Borrowers agreement to - fund the Completion/Repair Escrow, and - perform Completion/Repairs; and • Completion/Repair Escrow disbursement terms. **Synonyms** • Completion/Repair Schedules
Completion/Repairs	Repairs or capital item replacements and deferred maintenance: • identified per the Property Condition Assessment; and • required per the - Completion/Repair Schedule, or - Completion/Repair Agreement. **Synonyms** • Completion/Repair

Control	Possessing, directly or indirectly, the power to direct or cause the management and operations of an entity (e.g., through the ownership of voting securities or other ownership interests, or by contract). **Synonyms** • Controlling • Controlled • Controls
Controlling Interest	For any entity, ownership or control of 50% or more of the ownership interests in the entity or the power or right to control or modify, directly or indirectly, the management and operations of the entity.

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 Maes satisfaction. **Synonyms** • Deliver • Delivered • Deliveries

G

Gross Note Rate	Mortgage Loan interest rate stated in the Loan Documents.
Guide	Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise. **Synonyms** • DUS Guide

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I

Improvements	Buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now or hereafter constructed or placed on the Property, including all fixtures (as defined in the UCC). **Synonyms** • Improvements'
Intangible Property	Business value, goodwill, and any other intangible value attributed to the Property being operated as a multifamily housing development.
Interest Rate Cap	Interest rate agreement between the Borrower and a provider for which the Borrower receives payments at the end of each period when the interest rate exceeds the Cap Strike Rate. The Interest Rate Cap provides a ceiling (or cap) on the Borrower's Mortgage Loan interest payments. **Synonyms** • Interest Rate Caps • Interest Rate Hedge • Interest Rate Hedges • Interest Rate Swap • Interest Rate Cap'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

Loan Documents	All Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan. **Synonyms** • Loan Document • Mortgage Loan Document • Mortgage Loan Documents
Loan-to-Value Ratio	Ratio of the actual aggregate UPB of the Mortgage Loan, plus any Pre-Existing Mortgage Loans, plus any Hard Pay Preferred Equity, plus any Mezzanine Financing, to the value of the Property, expressed as a percentage. **Synonyms** • LTV • LTV Ratio
Low-Income Housing Tax Credit	Federal program offering tax credits to owners of eligible properties that contain low-income occupants and rent restrictions. **Synonyms** • Low-Income Housing Tax Credits • Low Income Housing Tax Credits • LIHTC • LIHTCs

M

Moderate Rehabilitation Property	Property that will undergo at least $8,000 per unit of Rehabilitation Work. **Synonyms** • Moderate Rehabilitation



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 Broker	Third-party Person who arranges • Mortgage Loan financing on the Borrowers behalf, or • Transfers/Assumptions on behalf of the - new Borrower for an assumption, or - transferee for a transfer. **Synonyms** • Broker • Brokers • Mortgage Loan Brokers
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

Multifamily Affordable Housing Property	Property that: • complies with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 702: MAH Property Eligibility; and • is underwritten per Part III, Chapter 7: Multifamily Affordable Housing Properties. **Synonyms** • MAH • Multifamily Affordable Housing • MAH Property

N

Net Cash Flow	At underwriting or for any specified period, the amount calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • NCF
Note	Instrument evidencing a Mortgage Loan obligation, including • Form 6010 series, • any other Fannie Mae-approved note, and • all applicable - addenda, - schedules, and - exhibits. **Synonyms** • Notes

O

Origination Fee	Fee you charge the Borrower for underwriting and originating the Mortgage Loan. **Synonyms** • Origination Fees

P

Person	Legal person, including an • individual, • estate, • trust, • corporation, • partnership, • limited liability company, • financial institution, • joint venture, • association, or • other organization or entity (whether governmental or private). **Synonyms** • Persons • Person's
Personal Property	Furniture, fixtures, equipment, and other tangible personal property located on or used in connection with the Property.
Project	Multifamily buildings • on multiple Properties, • owned by the same Borrower, and • that comply with Part II, Chapter 1: Attributes and Characteristics, Section 103.01: 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
Property Condition Assessment	Assessment of the Property's physical condition and historical operation. **Synonyms** • PCA • PNA • Physical Needs Assessment • PCAs
Purchase/Sales Agreement	Final fully executed purchase or sales contract or agreement (including all amendments, assignments, extensions, joinders/acknowledgements, and related documents) for an Acquisition. **Synonyms** • PSA

R

Rehabilitation Reserve Account	Custodial Account established by the Lender and funded by deposits from the Borrower per the Rehabilitation Reserve Agreement to fund the Rehabilitation Work.
Rehabilitation Reserve Agreement	Borrowers agreement to undertake identified Rehabilitation Work, the terms for funding the Rehabilitation Work, and the disbursement of funds from the Rehabilitation Reserve Account (e.g., Form 6222 or Form 4523).

Replacement Reserve	Custodial Account the Borrower funds during the Mortgage Loan term for Replacements. **Synonyms** • Replacement Reserves
Replacements	Capital item replacements and major maintenance needs identified by the Property Condition Assessment or otherwise required. **Synonyms** • Replacement

S

Security	MBS, PFP MBS, or REMIC. **Synonyms** • Securities
Seniors Housing Property	Multifamily residential rental property with any combination of Independent Living, Assisted Living, Alzheimers/Dementia Care, or Skilled Nursing units. **Synonyms** • Seniors Housing • Seniors Housing Properties

U

Underwriting Value	Value of the Property determined by the Lender to size the Mortgage Loan per Part II, Chapter 2: Valuation and Income, Section 202: Appraisal and Valuation.