Fannie Mae

Multifamily Selling and Servicing Guide

Effective as of August 1, 2019

TABLE OF CONTENTS

Chapter 7 Multifamily Affordable Housing Properties

Section 701 Generally

701.01 Description

Requirements

An MAH Property is a Property that is encumbered by a regulatory agreement, land use restriction agreement, extended use agreement, or similar restriction (an Affordable Regulatory Agreement) that

- limits rents that can be charged to tenants, or
- imposes income limits on tenants.

An Affordable Preservation Transaction is any transaction involving an MAH Property that:

- currently has rent or income restrictions meeting the eligibility criteria of an MAH Property, but the Property is potentially at risk of being lost from the affordable housing inventory through conversion to market-rate housing;
- is not receiving new LIHTC; and
- is being acquired or refinanced, but excludes a Mortgage Loan paying off the initial construction loan.

701.02 Eligible Lenders

Requirements

You must be approved in writing to Deliver MAH Mortgage Loans.

Section 702 MAH Property Eligibility

702.01 Eligible Characteristics and Underwriting

Requirements

You must ensure that an MAH Property has rent or income restrictions that meet or exceed 1 of the following:

- **20% @ 50%:** at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 50% of

AMI as adjusted for family size.

- **40% @ 60%:** at least 40% of all units have rent or income restrictions in place making them affordable to households earning no more than 60% of AMI as adjusted for family size (except for New York City, where at least 25% of all units have rent or income restrictions in place, making them affordable to households earning no more than 60% of AMI as adjusted for family size).
- **Section 8 HAP contract:** at least 20% of all units are subject to a project-based HAP contract.
- **Special Public Purpose:** the Property
  - is subject to an Affordable Regulatory Agreement imposed by a government entity, containing other rent and/or income restrictions,
  - has rent or income restrictions that meet or exceed **20% @ 80%:** at least 20% of all units have rent or income restrictions in place making them affordable to households earning no more than 80% of AMI as adjusted for family size, and
  - meets a noteworthy special public purpose.
- **Self-Imposed Restrictions:** Even though a government entity generally imposes rent or income restrictions, the Borrower may voluntarily self-impose such restrictions to preserve multifamily affordable housing. These restrictions must:
  - be placed on record against the Property;
  - remain in place beyond the Mortgage Loan Maturity Date; and
  - be monitored by you or a government entity annually to ensure the Property's compliance.

Guidance

An MAH Property may also:

- be subject to FHA Risk Sharing;
- be financed using tax-exempt Bonds;
- receive LIHTC under Section 42 of the Internal Revenue Code, and its related U.S. Treasury regulations;
- be subject to inclusionary zoning (e.g., targeting certain income levels or employees of certain firms or institutions, etc.) or resale restrictions; or
- receive other state, local or federal subsidies which are conditioned on the affordability of some or all of the units in the Property, including Rural Housing Service (RHS) Section 515 Loans, and Loans insured under Section 202 or Section 236 of the National Housing Act.

Requirements

You must:

- Reflect the impact of the rent or income restrictions in your underwriting.
- Maintain a copy of the applicable Affordable Regulatory Agreement or Property restrictions in your Servicing File.

702.02 Ineligible Characteristics and Underwriting

Requirements

You must not underwrite or price the Property as an MAH Property if it:

- has less than 3 years of rent or income restrictions remaining on the Affordable Regulatory Agreement; and
- is expected to transition to market rents during the term of the Mortgage Loan.

Section 703 Property Income and Underwriting

703.01 Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF.

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
1		GROSS RENTAL INCOME the least of: • rents permitted under any federal, state, or local subsidy program applicable to the Property, as adjusted for AMI, family size, and number of bedrooms in a unit, and reductions for the applicable utility allowances; • rents permitted under any restrictive covenants, subordinate financing requirements, or an Affordable Regulatory Agreement recorded on the Property; or • actual rents in place for occupied units, plus the lesser of - market rents, or - permitted rents, described above for vacant units based on a current rent roll (multiplied by 12). You must include incremental HAP contract income as described inPart III, Chapter 7: Multifamily Affordable Housing Properties, Section 707.01: Properties with Both HAP Contracts and LIHTC Units.
2	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category).
	EQUALS	GROSS POTENTIAL RENT (GPR)
3	MINUS	Physical vacancy applicable actual rents for vacant units and MAH unit type (e.g., 20% @ 50%, 40% @ 60%, or HAP contract) based on a current rent roll (multiplied by 12).[1]

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
4	MINUS	Concessions the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc.).[1]
5	MINUS	Bad debt the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt.[1]
	EQUALS	NET RENTAL INCOME (NRI)[2]

1 The total of Items 3, 4, and 5 must equal the greater of

- the difference between the trailing 3-month net rental collections (annualized) and GPR, or
- either
  - 5% of GPR, or
  - 3% of GPR if:
    - the Property is located in a Strong Market perForm 4660;
    - the Property has a HAP contract that will expire after the Maturity Date; and
    - the economic vacancy (i.e., the total of Items 3, 4, and 5) is supported by current and 3 years of historical economic vacancy data.

2 You must assess whether there was any decline in NRI perPart II, Chapter 2: Valuation and Income, Section 202: Income Analysis.

CALCULATION OF OTHER INCOME[3]

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
6	PLUS	Actual other income (except premiums and corporate premiums) generated through ongoing operations. The income must: • be stable; • be common in the market; • exclude one-time extraordinary non-recurring items; and • be supported by prior years. You must assess the individual month other income within the prior full-year operating statement or, at a minimum, an operating statement covering at least the trailing 6 months (annualized). If there are fluctuations, you may use other income that exceeds the trailing 3-month other income (annualized), as long as it does not exceed the highest 1-month other income used in the trailing 3-month other income calculation.
3 If premiums or corporate premiums are applicable for a particular MAH Property, inclusion of premium income is permitted consistent withPart II, Chapter 2: Valuation and Income, Section 202: Income Analysis.		
CALCULATION OF COMMERCIAL INCOME		
7	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
8	MINUS	10% of the actual commercial income.[4]
4 If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
9	PLUS	Laundry and vending, parking, and all other income perPart II, Chapter 2: Valuation and Income, Section 202: Income Analysis.
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
CALCULATION OF OPERATING EXPENSES		

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
10	MINUS	Line-by-line stabilized operating expenses. Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by lease-ups, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included. You must assess: • the past operating history; • the appraisers expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrowers budget (in the case of an acquisition). You must analyze historical operations at the Property and apply an appropriate increase over the prior years operations in determining an estimate.
11	MINUS	Property management fee equal to the greatest of: • 4% of EGI[5]; • actual property management fee (exclude any portion of a non-arms-length property management fee that is subordinated to the Mortgage Loan); or • market property management fee.
5 Minimum management fee may be 3.5% of EGI (rather than 4% of EGI) provided that the: • underwritten management fee is at least $300 per unit; • actual management fee is equal to or less than the underwritten management fee; and • market management fees support the underwritten management fee for similarly sized properties.		

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
12	MINUS	Real estate taxes based on the greatest of: • actual future tax bill(s) covering a full calendar year; • prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or • in California, the greater ofthe Mortgage Loan amountorthe assessed value,multiplied by the millage rate, plus any special assessments. You must consider any automatic reassessment upon acquisition in the next 12-month period.

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
12 continued	MINUS	If the Property has real estate tax abatements, exemptions, or deferrals, they must: • be in effect at closing (or at conversion in the case of a Forward Commitment), per written documentation from the state or local tax assessor; • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit as long as the rent, income, or other restrictions are maintained (i.e., it is tied to the Property and not the owner); and • if governed under the California Welfare Tax Exemption Program, meet the following: - if a refinance, the Borrower must be in and remain in compliance with the California Welfare Tax Exemption program; or - if an acquisition or a Transfer/Assumption where the Affiliate with Control of the Borrower (which is typically a non-profit entity), or the non-profit entity itself, is changing you must: ▪ escrow at least 6 months of full real estate taxes at closing which will be released after confirming that the California Welfare Tax Abatement is approved and in place at the Property; ▪ ensure that the Borrower has demonstrated experience with the California Welfare Tax Abatement Program; and ▪ ensure that the Borrower is and remains eligible for the California Welfare Tax Abatement Program.

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
12 continued	MINUS	If the Property benefits from real estate tax abatements, exemptions, or deferrals that will not survive a Foreclosure Event, then you may use a reduced real estate tax payment only if: • upon reapplying for the original underwritten tax abatement or an alternative tax abatement, Fannie Mae or a subsequent Property owner would qualify for the tax abatement; • the rent or income restrictions at the Property are maintained; and • you have ensured that: - if a qualified non-profit entity is required to participate in the ownership structure of the MAH Property in order to qualify for the tax abatement, exemption, or deferral, a sufficient number of qualified non-profits currently operate in the market (at least 3 for an MSA with a population of less than 1 million and at least 5 for an MSA with a population of 1 million or greater), and in the event of a foreclosure, could serve in the replacement ownership structure to qualify for the tax abatement, exemption, or deferral; and - the original or alternative tax abatement, exemption, or deferral has ▪ been established in the states statutes, ▪ been in effect for at least 10 years, and ▪ the Lender conducted all appropriate due diligence and confirmed that there is no material risk that the tax abatement, exemption, or deferral legislation will be repealed or revised in a manner that would affect the Propertys ability to continue to qualify for the tax abatement, exemption, or deferral.

REQUIRED UNDERWRITTEN NCF (MULTIFAMILY AFFORDABLE PROPERTY)		
Item	Function	Description
12 continued	MINUS	If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument), • an amortization schedule that accommodates the elimination of the abatement, or • providing clear justification and support in the refinance analysis.
13	MINUS	Insurance equal to: • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or • 110% of the current expense, for insurance policies with a remaining term of less than 6 months.
14	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses perPart II, Chapter 2: Valuation and Income, Section 202: Income Analysis.
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
15	MINUS	Replacement Reserve expense per Part II, Chapter 2: Valuation and Income, Section 202.01: Underwritten Net Cash Flow (Underwritten NCF).
	EQUALS	UNDERWRITTEN NCF

703.02 Underwriting

703.02A Not-for-Profit (IRC §501[c][3]) Borrower may be a Multi-Asset Borrower

Requirements

Although a single-asset entity is preferred, a not-for-profit Borrower may be a multi-asset entity.

If the not-for-profit Borrower is a multi-asset Borrower, you must analyze the Borrower's other assets and general financial condition per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 302: Borrower Organizational Structure.

703.02B Appraised Value and Underwriting Value

Requirements

In addition to the Appraisal requirements in Part II, Chapter 2: Valuation and Income, Section 201.02: Appraisal, you must:

- Include 2 separate opinions of the Appraised Value based on:
  - the Affordable Regulatory Agreement, using
    - comparable multifamily rental properties,
    - the Property's submarket, and
    - properties with similar rent or income restrictions; and
  - the Property's income and expenses without the Affordable Regulatory Agreement (e.g., market rents, occupancy, and operating expenses), using
    - comparable multifamily market rate rental properties, and
    - the Property's submarket.
- Ensure that each Appraised Value is based on a market cap rate without any upward or downward adjustment for:
  - special financing (other than adjusted cap rates for Credit Enhancement Mortgage Loans);
  - tax credit benefits; or
  - any perceived special risks or benefits associated with the Property and its Affordable Regulatory Agreement.
- Determine the appropriate Appraised Value for the Underwriting Value per Part II, Chapter 2: Valuation and Income, Section 201: Market and Valuation.

703.02C Market Study

Requirements

If the Property is subject to a HAP contract that will expire before the Mortgage Loan Maturity Date, you must include a market study (which can be part of the Appraisal) that:

- is prepared by a qualified real estate professional; and
- identifies the absorption rate, lease-up period, and rent level for comparable market rate rental properties in the submarket.

703.02D Restabilization Reserve

Requirements

You must establish a Restabilization Reserve for an MAH Property that has a HAP contract if the HAP contract term (disregarding any annual or other incremental government appropriation conditions) expires before the Mortgage Loan Maturity Date.

The Restabilization Reserve must:

- equal the monthly P&I on the Mortgage Loan, multiplied by the greater of
  - 6 months, or
  - the lease-up period determined by the market study per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.02C: Market Study; and
- remain in place until
  - the Property achieves underwritten occupancy for 90 days at market rate rents, or
  - the HAP contract is renewed and expires after the Mortgage Loan Maturity Date.

703.02E Affordable Regulatory Agreement Restrictions

Guidance

To underwrite the Mortgage Loan as an MAH Property, the Affordable Regulatory Agreement restrictions should remain in effect for the term of the Mortgage Loan.

Requirements

When the Affordable Regulatory Agreement restrictions have 3 or more years remaining but will expire before the Mortgage Loan Maturity Date, you must provide support to underwrite to the MAH Preservation standards in the Form 4660, taking into account factors such as:

- restricted rents below market rate rents;
- the Property's history of operating as an MAH Property;
- the Borrower's history and experience owning and operating MAH Properties;
- the Borrower's intention to renew the Affordable Regulatory Agreement;
- the amount of time between the Maturity Date and when the Affordable Regulatory Agreement restrictions expire;
- market strength; and
- how the Property compares to comparable market rate properties in terms of occupancy, condition, and amenities if the Borrower intends to convert the Property to market rate rents and if no rent advantage exists.

See Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 702.01: Eligible Characteristics and Underwriting regarding self-imposed restrictions.

Section 704 Subordinate Financing

704.01 Interest Rate and Payments

☑ Requirements

You must ensure that the subordinate loan has:

- a fixed rate;
- interest payable on a current basis; and
- no deferrals, except as described in this Section.

704.02 Loan Term

☑ Requirements

A fully amortizing subordinate loan may mature at any time regardless of the:

- Maturity Date of the Mortgage Loan or any Pre-Existing Mortgage Loans; or
- expiration date of the Fannie Mae Credit Enhancement Instrument.

You must ensure that any subordinate loan that does not fully amortize, including any Soft Financing, does not mature before 90 days after the earlier of the:

- final Maturity Date of the Mortgage Loan or any Pre-Existing Mortgage Loans; or
- expiration date of the Fannie Mae Credit Enhancement Instrument for the Mortgage Loan or any Pre-Existing Mortgage Loans.

704.03 Collateral

Guidance

You may secure the subordinate loan with a Lien on the Property if:

- the Lien is subordinated to the Lien of the Security Instrument per Sections 704.08 - 704.11 of this Chapter; and
- the granting clause of the security instrument creating the subordinate Lien is the same as that of the Security Instrument.

704.04 Credit Support

Requirements

You must ensure that the Mortgage Loan secured by the MAH Property obtains the same credit support and collateral as any subordinate loan, including any

- recourse to the Borrower or third-party Guarantor, or
- additional collateral.

704.05 Soft Financing

Requirements

To be considered Soft Financing, subordinate debt must have all of the following:

- P&I payments made only from the surplus NCF remaining after all other payments (due and owing) are made on Pre-Existing Mortgage Loans;
- unpaid interest that either
  - does not accrue, or
  - accrues, but can only be satisfied from the surplus NCF;
- agreement from the subordinate Lender to execute a Subordination

Agreement with any future first Lien Lender that refinances any UPB on the Mortgage Loan secured by the MAH Property;

- the Borrower's failure to make an interest or principal payment due to a lack of surplus NCF is not considered a default under the Soft Financing subordinate debt; and
- the Borrower retains a minimum 25% equity share in the surplus NCF unless
  - the Property has LIHTC,
  - the Soft Financing Note is payable to the developer, and
  - the developer (or entities related to the developer) owns or controls more than 50% of the general partner (or equivalent managing) interest of the Borrower.

Guidance

Soft Financing may also include:

- a Loan term significantly longer than the term of the Mortgage Loan, with the subordinate loan either
  - being forgiven over time or at the maturity date of the Soft Financing, or
  - due only upon the sale of the Property;
- a nominal interest rate (e.g., 1% or 2%); or
- principal payments on the Soft Financing that do not fully amortize the subordinate debt over its term.

704.06 Subordinate Lender

Requirements

If the Lender type is...	Then...
Public / Quasi-Public / Not-for-Profit Lender	A subordinate loan provided by a public, quasi-public, or not-for-profit Lender may • be Soft Financing, or • require mandatory payments of P&I, or interest-only.

If the Lender type is...	Then...
Private Lender	You must ensure that any subordinate financing originated by a private, for-profit Lender is Soft Financing perPart III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.05: Soft Financing.

704.07 Developer's Notes

Requirements

You must ensure that the Borrower only secures a commitment to repay developer advances or unpaid development costs with the proceeds of a mortgage loan secured by the Property if the subordinate financing is Soft Financing per Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704.05: Soft Financing.

704.08 Subordination Agreement

Requirements

You, the Borrower, and the subordinate Lender must enter into either:

- Fannie Mae form Subordination Agreement (Affordable) (Form 6456), if the subordinate Lender is a government entity; or
- Fannie Mae form Subordination Agreement (Conventional) (Form 6414), if the subordinate Lender is not a government entity.

704.09 Lien Priority and Title Insurance Policy

Requirements

You must ensure that:

- The Lien securing the subordinate loan remains, at all times, subordinate to the Lien of the Security Instrument securing the Pre-Existing Mortgage Loans or Credit Enhancement Mortgage Loan, including any refinancing of the Pre-Existing Mortgage Loans.
- The Subordination Agreement is recorded in the land records immediately after the subordinate security instrument is recorded.
- The title insurance policy reflects the recordation of the Subordination Agreement.

704.10 Form of Subordinate Loan Documents

Requirements

You must confirm that the subordinate loan documents:

- comply with this Chapter;
- include the specific provisions required by the Subordination Agreement;
- do not require the Borrower to maximize rents at the Property (even if the Property is subject to an Affordable Regulatory Agreement); and
- are not in the form of subordinate Bonds.

704.11 Prepayment

Requirements

The Borrower may not prepay or redeem the subordinate loan without Fannie Mae's consent.

Section 705 Restrictive Covenants and Affordable Regulatory Agreements

Requirements

You must review the Affordable Regulatory Agreement to ensure there are no provisions that, if a Borrower defaulted, would

- grant rights, remedies, or powers similar to that of a secured creditor to any aggrieved party, or
- impair the Lien rights or priority of the Lien of the Security Instrument.

If the Affordable Regulatory Agreement contains any of these provisions, Fannie Mae will only purchase the Mortgage Loan if the Affordable Regulatory Agreement is subordinated to the Lien of the Security Instrument

- using a Subordination Agreement approved by Fannie Mae, or
- if the Affordable Regulatory Agreement is in connection with a subordinate loan, using Fannie Mae form Subordination Agreement (Affordable) (Form 6456).

Guidance

The rights, remedies, and powers of a secured creditor would typically include:

- the ability to appoint a receiver;

- the right to collect rents directly from the mortgaged property;
- the right to take possession of the mortgaged property;
- limitations on transferring title to you or to a subsequent transferee by foreclosure or deed in lieu;
- no requirement to give you notice of violations of or amendments to the Affordable Regulatory Agreement; and
- the ability to remove or replace the Property manager without your prior consent.

The Affordable Regulatory Agreement does not need to be subordinated to the Lien of the Security Instrument if the Affordable Regulatory Agreement:

- has no Borrower obligations other than the affordability restrictions;
- has no rights or remedies to enforce the affordability restrictions other than specific performance or injunctive relief; and
- terminates upon foreclosure of the Mortgage Loan.

Section 706 ROAR Loan

706.01 Generally

☑ Requirements

You must ensure that any ROAR Loan:

- is a Mortgage Loan or Credit Enhancement Mortgage Loan using a Credit Enhancement Instrument;
- has a fixed rate;
- has a minimum Mortgage Loan amount of $5 million;
- currently has Stabilized Residential Occupancy, but will likely experience tenant displacement significant enough to lower the Underwritten DSCR, calculated using the Gross Note Rate, below the required DSCR set forth in Form 4660; and
- is secured by an MAH Property
  - that will undergo repairs, replacements, or improvements costing $10,000 per unit or more (based on the total number of residential units at the Property), or qualifies as a Moderate Rehabilitation Property, and
  - the repairs and improvements will be completed within 18 months after the Mortgage Loan Origination Date.

706.02 Timing

Requirements

Within 18 months after the Mortgage Loan Origination Date

- the ROAR Work must be completed, and
- Restabilized Residential Occupancy must be achieved.

706.03 General Underwriting

Guidance

In addition to complying with Part III, Chapter 3: Moderate Rehabilitation Mortgage Loans, you should also review and evaluate:

- the reasonableness of the estimated cost of the ROAR Work and the completion schedule;
- whether the ROAR Work can be completed and the Restabilized Residential Occupancy achieved within 18 months after the Mortgage Loan Origination Date;
- the Borrower's experience in developing or rehabilitating properties similar to the ROAR Property;
- the tenant relocation plan, including budget and schedule;
- the ROAR Work budget, including monthly sources and uses during the rehabilitation period;
- any construction risks;
- the LIHTC investors' financial strength, experience, and reputation; and
- the projected rent levels relative to market rents.

706.04 Additional Underwriting and Loan Documents

Requirements

You must underwrite the ROAR Loan per the following table.

Topic	Description
Underwritten NCF	GPR must comply withPart III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF; Underwritten NCF can be based on the Restabilized Residential Occupancy and normalized operating expenses achievable within 18 months after the Mortgage Loan Origination Date.
Appraisal	The Appraisal must include an opinion of the value of the Property on both an as is and an as completed basis that incorporates the ROAR Work to be completed after the Mortgage Loan Origination Date.
Occupancy During ROAR Work	Physical Occupancy: minimum of 50%; and Economic Occupancy: minimum of 50%.
Minimum DSCR During ROAR Work	Using the ROAR Stressed NCF, actual fixed interest rate, and maximum loan amount based on the as completed value • 0.75 on an amortizing basis, or • 1.00 on an interest-only basis, if applicable.
Rehabilitation Reserve Agreement	Required.
Key Principal Guaranties	The Key Principal must execute a • Completion Guaranty (Form 6018), and • an operating deficit guaranty.
Letter of Credit	Any Letter of Credit must: • comply withPart I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit; and • equal at least 125% of the difference between the maximum Mortgage Loan amount based on - the as completed value, and - the as is value.

Topic	Description
Additional Credit Support	May be required.
Underwriting Fee	You must: • charge the Borrower an underwriting fee equal3 basis points of the Mortgage Loan amount; and • pay that amount to Fannie Mae.

Section 707 HAP Contract Properties

707.01 Properties with Both HAP Contracts and LIHTC Units

Requirements

For a Mortgage Loan secured by an MAH Property or a Credit Enhancement Mortgage Loan, if the Property has both HAP contracts and LIHTC units, you must underwrite the Mortgage Loan using 1 of the following options.

Choice	Requirements
Option 1	Underwrite the rents from HAP contract units using the lowest of • market rents, • HAP contract rents, or • Applicable LIHTC rents.
Option 2	Underwrite the rents from HAP contract units using the additional income above the LIHTC rents (LIHTC overage) if the HAP contract rents are less than market rents. If the HAP contract expires before the Mortgage Loan Maturity Date, you must ensure that: • the Underwritten DSCR is greater than or equal to 1.05 based on the LIHTC rents; and • the Property has an Underwritten DSCR greater than or equal to 1.10 based on the LIHTC rents when the HAP contract expires.

You may use Option 2, or eliminate the Restabilization Reserve under either option, if you meet all of the following:

- all LIHTC rents are at least 10% below market;

- the MAH Property is located in a market or submarket with 90% or greater economic occupancy; and
- the Sponsor is experienced and successful in owning and operating properties with HAP contracts.

707.02 HAP Contract Review Sheet

☑ Requirements

Before you Deliver the Mortgage Loan, you must:

- complete the Section 8 Housing Assistance Payments (HAP) Contract Review Sheet and Certification (Form 6422); and
- confirm that all conditions for approval are met.

Section 708 Refinancing Section 236 Properties – IRP is Maintained

☑ Requirements

For Fannie Mae to consider the cash flow from an IRP, the Borrower must decouple the IRP from the existing Section 236 note and mortgage by

- prepaying the Section 236 Loan, and
- having the IRP transferred to a new Mortgage Loan (which will be then considered a Section 236 Loan for purposes of continuing the IRP).

708.01 No Additional Proceeds

☑ Requirements

If the Borrower is not seeking additional proceeds based on the IRP, you must exclude the amount of the IRP from the LTV and Underwritten DSCR.

708.02 Additional Proceeds from Mortgage Loan

☑ Requirements

If the Borrower is seeking additional proceeds from the Mortgage Loan based on the IRP, then you must ensure that:

- The Mortgage Loan has equal monthly payments of P&I.
- The portion of the Mortgage Loan sized based on the Underwritten NCF meets Fannie Mae's LTV and Underwritten DSCR requirements without considering the IRP cash flow.

- The portion of the Mortgage Loan sized based on the IRP cash flow has an Underwritten DSCR of at least 1.00.
- The financing structure reflects the remaining term of the IRP through a bifurcated note or amortization structure.

In a Forward Commitment transaction, if the IRP is decoupled from the original Section 236 Loan, you do not need to ensure principal amortization during the construction phase.

708.03 Additional Proceeds from Other Sources

☑ Requirements

If the Borrower is seeking additional proceeds from sources other than the Mortgage Loan based on the IRP, you must:

- factor the debt into the Property's overall LTV; and
- comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.

Section 709 LIHTC Properties – Lender Equity Interest

☑ Requirements

Fannie Mae will only purchase a Mortgage Loan secured by an LIHTC Property in which you are an equity investor (directly or indirectly) in the Borrower if the following conditions are met:

- You and the equity syndicator are organized to ensure independent analysis and decision making occurs in the
  - underwriting and approval of the debt,
  - equity investments, and
  - servicing of the Mortgage Loan.
- You comply with the Underwriting Restrictions for Conflict Mortgage Loans per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 310.02: Restrictions.
- Any subordinate loans secured by the Property comply with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 704: Subordinate Financing.

Section 710 Transactions with Fannie Mae Debt and Equity Interests

710.01 Transactions Funded with Tax-Exempt Bond Proceeds

Requirements

If a Mortgage Loan will be funded with tax-exempt bond proceeds and the Property securing the Mortgage Loan qualifies for LIHTC, you must confirm:

- If Fannie Mae owns or plans to acquire a direct or indirect equity interest in the Borrower, it does not own or intend to acquire an interest in the tax-exempt Bonds.
- If Fannie Mae owns or plans to acquire an interest in the tax-exempt Bonds, it does not own or intend to acquire a direct or indirect equity interest in the Borrower.

710.02 Fannie Mae Credit-Enhanced Tax-Exempt Bond Issuance

Requirements

You must confirm that if Fannie Mae credit enhances tax-exempt Bonds issued to fund a Mortgage Loan, it does not also own or intend to acquire a direct equity interest in the Borrower.

If Fannie Mae owns or intends to acquire an indirect equity interest in the Borrower through a fund, you must confirm:

- Fannie Mae's indirect equity interest in the Borrower is less than 50%;
- in the case of an LIHTC transaction:
  - the IRS documentation filed in connection with the Bond issuance shows that none of the Bond proceeds were applied to pay any portion of Fannie Mae's credit enhancement fee;
  - the Bond issuer and the Borrower have either
    - entered into an LIHTC agreement that acknowledges Fannie Mae's equity interest, or
    - consented in writing to Fannie Mae's equity interest; and
  - any required notices to the Borrower and the issuer under an LIHTC agreement have been provided; and
- in the case of a non-LIHTC transaction, the issuer and the Borrower have consented in writing to Fannie Mae's equity interest.

Section 711 FHA Risk Sharing

711.01 Description

Guidance

Fannie Mae and the HUD have a risk sharing agreement to share risk on Mortgage Loans for certain MAH transactions. HUD's risk sharing is in the form of mortgage insurance from FHA. HUD takes 50% of the risk of loss, and the remaining 50% of the loss is shared by you and Fannie Mae.

711.02 Eligibility

711.02A Borrowers, Key Principals, Guarantors, and Principals

Requirements

You must ensure that the Borrower (and each Key Principal, Guarantor, and Principal) is not on the most current "List of Parties Excluded from Federal Procurement or Nonprocurement Programs".

711.02B Generally

Requirements

You must ensure that:

- All FHA Risk Sharing Mortgage Loans are fixed rate with no interest-only period.
- The minimum Mortgage Loan term is 15 years.
- The Property qualifies as an MAH Property.
- Rent, income, and/or occupancy restrictions are in effect for at least the term of the Mortgage Loan. For MAH Properties with remaining affordability restrictions of less than 18 years, the affordability restrictions will be considered senior to the Lien of the Mortgage Loan when enforcing restrictions.

711.02C Cash Out

Guidance

There is no limit on the amount of cash out in an FHA Risk Sharing transaction.

711.03 Mortgage Insurance Premium

Requirements

Your pricing for a FHA Risk Sharing Mortgage Loan must include a sufficient amount to pay the mortgage insurance premium due to FHA.

Guidance

Fannie Mae will make this FHA premium payment on or before its due date.

711.04 Reserving FHA Units

Operating Procedures

Before the Commitment Date you must perform the following steps to reserve units for each Property to be financed with an FHA Risk Sharing Mortgage Loan.

Step 1: You must send the Deal Team a written request to reserve units that includes

- a cover letter, and
- the Fannie Mae/FHA Pre-Application for a Reservation of Risk Sharing Units (Form 4670).

Step 2: You must obtain Fannie Mae's written confirmation of the reservation of units and the proposed Mortgage Loan amount.

The unit reservation will be valid for 120 days (except for FHA Risk Sharing with a Forward Commitment where the unit reservation is valid for the period specified in the Forward Commitment).

Step 3: Before the Commitment Date, you must obtain Fannie Mae's written approval, including any

- variance in the number of units, or
- change in the Mortgage Loan amount referenced in the initial reservation letter.

711.05 Subsidy Layering Review

Requirements

If there is a possibility that more than 1 source of federal, state, or local governmental assistance may fund the transaction, you must submit the subsidy layering information per the FHA Risk Sharing Subsidy Layering Information (Form 4672).

711.06 Lender FHA Risk Sharing Reserve and Loss Sharing Modifications

Operating Procedures

If a Mortgage Loan has been approved for FHA Risk Sharing, your reserve and loss sharing obligations may be reduced per the Mortgage Loan Certificate (Form 6505).

Glossary

A

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
Affordable Regulatory Agreement	Regulatory, land use, extended use, or similar agreement or recorded restriction limiting rents, imposing maximum income restrictions on tenants, or placing other affordability restrictions on the use or occupancy of the Property (whether imposed by a government entity or self-imposed by a Borrower).
Appraisal	Written statement independently and impartially prepared by a qualified appraiser stating an opinion as to the market value of the Property as of a specific date, supported by the presentation and analysis of relevant market information. **Synonyms** • Appraisals

Appraised Value	Appraiser's opinion of the market value of the Property documented in the Appraisal, on an "as is" basis, unless use of an "as completed" basis is specifically permitted by the Guide. **Synonyms** • Appraised Values

B

Bifurcated Mortgage Loan	Single Senior Mortgage Loan that is evidenced by 2 Notes with the same payment and collateral priority. **Synonyms** • Bifurcated Mortgage Loans
Bonds	Tax-exempt or taxable multifamily revenue bonds, or other tax-exempt or taxable bonds, issued to finance 1 or more Credit Enhancement Mortgage Loan Properties. **Synonyms** • Bond
Borrower	Person who is the obligor under the Note. **Synonyms** • Borrowers • Borrower's

C

Commitment Date	Date a Commitment is confirmed by Fannie Mae as described in Part IV A, Chapter 3: Committing.

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
Credit Enhancement Instrument	Agreement between Fannie Mae and a Bond Trustee where Fannie Mae provides credit enhancement of a Credit Enhancement Mortgage Loan, Bonds issued to finance a Credit Enhancement Mortgage Loan, or an Interest Rate Hedge Agreement; and if applicable, a Bond liquidity facility. **Synonyms** • Credit Enhancement Instruments
Credit Enhancement Mortgage Loan	Mortgage Loan underwritten and serviced by the Lender and financed by the issuance of Bonds where Fannie Mae is providing a Credit Enhancement Instrument. **Synonyms** • Credit Enhancement Mortgage Loans

F

FHA	Federal Housing Administration
FHA Risk Sharing	MAH Mortgage Loan with mortgage insurance from FHA.

Foreclosure Event	Any of the following: • Foreclosure under the Security Instrument; • any other exercise by the Lender of rights and remedies (whether under the Security Instrument or under applicable law, including Insolvency Laws) as holder of the Mortgage Loan and/or the Security Instrument, as a result of which the Lender (or its designee or nominee) or a third-party purchaser becomes owner of the Property; • delivery by the Borrower to the Lender (or its designee or nominee) of a deed or other conveyance of the Borrower’s interest in the Property in lieu of any of the foregoing; or • in Louisiana, any dation en paiement.
Form 4660	Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the minimum underwriting requirements (e.g., debt service coverage ratio, loan to value ratio, interest only, underwriting floors, etc.) for all Mortgage Loans. **Synonyms** • Multifamily Underwriting Standards
Forward Commitment	Commitment to purchase a permanent Mortgage Loan for a to-be constructed or rehabilitated Property per Part XV of the DUS Guide, subject to certain conditions. **Synonyms** • Forward Commitments

G

Gross Note Rate	Interest rate stated in the Loan Documents.

Guarantor	Key Principal or other Person who executes a Payment Guaranty, a Non-Recourse Guaranty, or any other guaranty in connection with the Mortgage Loan. **Synonyms** • Guarantors
Guaranty	Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.

H

HUD	U.S. Department of Housing and Urban Development

I

IRP	Interest Reduction Payment **Synonyms** • Interest Reduction Payment

K

Key Principal	Person(s) who control and/or manage the Borrower or the Property, are critical to the successful operation and management of the Borrower and the Property, and who may be required to provide a Guaranty. **Synonyms** • Key Principals

L

Lender	Person approved by Fannie Mae to sell or service Mortgage Loans. **Synonyms** • Lenders • Lender's

Letter of Credit	Letter of Credit approved by Fannie Mae per Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit. **Synonyms** • Letters of Credit • LOC • LOCs
Lien	Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind. **Synonyms** • Liens

M

Maturity Date	Date all amounts due and owing under the Mortgage Loan become fully due and payable per the Loan Documents. **Synonyms** • Maturity Dates
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 Origination Date	Date the Lender funds a Mortgage Loan to the Borrower. **Synonyms** • Mortgage Loan's Origination Date • Origination Date

N

Note	Current instrument evidencing a Mortgage Loan obligation, including Form 6010 series, any other note approved by Fannie Mae, and all applicable addenda, schedules, and exhibits. **Synonyms** • Notes

P

P&I	Principal and interest
Preservation	Renewal or continuation of rent, income and/or occupancy restrictions on multifamily rental housing eligible as an MAH Property, but • is potentially at risk of being lost from the affordable housing inventory through conversion to market-rate housing, and • is not receiving new LIHTC.
Principal	Person who owns or controls specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors. **Synonyms** • Principals

Property	Multifamily residential property securing the Mortgage Loan and including the land (or Leasehold interest in land), Improvements, and personal property (as defined in the Uniform Commercial Code). **Synonyms** • Properties • Property's

R

Rehabilitation Reserve Agreement	Borrower's 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.Mod, Form 6222.Sub, or Form 4523).
Replacement Reserve	Custodial Account established by the Lender and funded by deposits from the Borrower over the term of the Mortgage Loan to fund the replacement of capital items at the Property. **Synonyms** • Replacement Reserves
Restabilized Residential Occupancy	Achievement of Underwritten NCF for 3 consecutive months after completion of the ROAR Work.
ROAR Loan	Reduced Occupancy Affordable Rehabilitation Loan
ROAR Stressed NCF	Minimum Underwritten NCF projected to occur during the ROAR Work period at a ROAR Property.

S

Security Instrument	Instrument creating a lien or encumbrance on 1 or more Properties and securing the obligations under the Loan Documents.

Servicing File	File for each Mortgage Loan serviced by the Lender. **Synonyms** • Servicing Files
Sponsor	Principal equity owner and/or the primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).
Stabilized Residential Occupancy	Percentage of Property units physically occupied by Qualified Occupants, per Part II, Chapter 1: Attributes and Characteristics, Section 104.02: Qualified Occupants as adjusted for the applicable Part III products and features.

T

Transfer/Assumption	Transaction resulting in a change in the ownership of the Borrower or Property. **Synonyms** • Transfers/Assumptions

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 201: Market and Valuation.
Underwritten Net Cash Flow	Net Cash Flow as adjusted by the Lender per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis and the applicable products and features in Part III. **Synonyms** • Underwritten NCF
UPB	Unpaid Principal Balance