



Fannie Mae®

Multifamily Selling and Servicing Guide

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703.02 Underwriting

703.02A Appraised Value and Underwriting Value

Requirements

In addition to the Appraisal requirements in [Part II, Chapter 2: Valuation and Income, Section 202: Appraisal and Valuation](#), you must:

- Include 2 separate opinions of the Appraised Value based on:
 - Restricted Value from the Affordable Regulatory Agreement, using
 - comparable multifamily rental properties,
 - the Property's submarket,
 - properties with similar rent or income restrictions, and
 - any tax abatements or exemptions.
 - Unrestricted Value from 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,
 - the Property's submarket, and
 - full taxes if rental income restrictions are required by a tax abatement or exemption.
- 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); or
 - tax credit benefits.
- Determine the appropriate Appraised Value for the Underwriting Value per [Part II, Chapter 2: Valuation and Income, Section 202: Appraisal and Valuation](#).

703.02B 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.

703.02C 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.

703.02D 35-Year Amortization

Requirements

If you use a 35-year amortization term, the:



- Property must have LIHTCs with at least 8 years remaining in the initial 15-year compliance period; and
- minimum MAH Mortgage Loan term must equal the greater of
 - the remaining initial compliance period, and
 - 10 years.

703.02E LIHTC Income Averaging

➔ Guidance

When a Sponsor elects LIHTC Income Averaging for a Property with new LIHTCs, you should consider:

- Will LIHTC Income Averaging impact other non-LIHTC regulatory agreements?
- Is LIHTC Income Averaging compatible with other funding and subsidy source requirements, including any project-based HAP contract?
- Has LIHTC Income Averaging been approved by the
 - state agency, and
 - LIHTC investor or syndicator?
- Will the on-site Property management staff have sufficient experience?
- Will the unit mix be impacted, including
 - unit parity,
 - multi-building election,
 - floating units, and
 - market rate units?
- What is the rent advantage, especially for units above 60% of AMI?
- For a Forward Commitment,
 - is the Property not a resyndication of a property previously developed or preserved using LIHTCs and subject to an existing extended use agreement, or
 - if the Property is a resyndication, have you confirmed the property has completed its extended use period?
- Does the market study include capture rates for each unit designation supporting LIHTC Income Averaging?



Requirements

You must identify and mitigate any risks from electing LIHTC Income Averaging.

703.02F Initial LIHTC Equity

Requirements

For any MAH Property with new LIHTCs, you must ensure at least 20% of the aggregate LIHTC equity that the LIHTC investor or syndicator must contribute into the limited partnership is received on or before the Mortgage Loan Origination Date.

703.02G Developer Fees

Guidance

You should analyze the development budget, including the

- developer fee due the Sponsor or any Affiliate, and
- any deferred developer fee (i.e., the portion of the developer fee shown as a source in the sources and uses statement).

If the deferred developer fee is greater than 50% of the total developer fee, you should confirm there are sufficient

- hard and soft contingency budgets, and
- projected surplus cash flows to repay the deferred developer fee within the initial compliance period.

703.02H Rent-Stabilized Units

Guidance

Refer to [Part II, Chapter 2: Valuation and Income, Section 207: Rent-Stabilized Properties](#) regarding rent-stabilized MAH Property units.



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
- Affiliate's

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 per the Sponsor-Initiated Affordability Agreement ([Form 6490](#))).



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

F

Form 4660

Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the 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.

Synonyms

- Forward Commitment's
- Forward Commitments

H

HAP

HUD project-based Section 8 rental subsidy in the form of a Housing Assistance Payment contract.

Synonyms

- Housing Assistance Payment

L

LIHTC Income Averaging

Internal Revenue Code Section 42 election allowing LIHTC property owners to rent units to households earning up to 80% of AMI, provided

- a minimum of 40% of the residential units are both rent-restricted and occupied by households with a maximum income up to an average of 60% of AMI, and
- the unit's rents are limited to 30% of the qualifying income level.

For example, for a 30% AMI unit, the maximum rent that may be charged to a household is 30% of AMI.

M

Maturity Date

Date all Mortgage Loan amounts become fully due and payable per the Loan Documents.

Synonyms

- Maturity Dates



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 Origination Date

Date you fund a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date

P

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 LIHTCs.

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

Restricted Value

Appraised Value assuming a Property's Affordable Regulatory Agreement is in effect.



S

Sponsor Principal equity owner and/or primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).

Synonyms

- Sponsors
- Sponsor's

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](#).

Unrestricted Value Appraised Value assuming a Property's Affordable Regulatory Agreement is not in effect.