Fannie Mae®

# Multifamily Selling and Servicing Guide

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# Section 706 ROAR Loan

## 706.01 Generally

### Requirements

You must ensure any ROAR Loan:

- is a Credit Enhancement Mortgage Loan using a Credit Enhancement Instrument;
- has a fixed rate;
- has a minimum Mortgage Loan amount of $5 million; and
- is secured by an MAH Property that:
  - 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
  - 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.

## 706.02 Timing

### Requirements

Within 24 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:

- Sponsor's experience developing or rehabilitating properties similar to the ROAR Property;
- tenant relocation plan, including budget and schedule;

- ROAR Work budget, including monthly sources and uses during the rehabilitation period;
- likelihood of any construction risks;
- LIHTC investors'
  - financial strength,
  - experience, and
  - reputation; and
- 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 with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 703.01: Underwritten NCF.<br>• Underwritten NCF can be based on the Restabilized Residential Occupancy and normalized operating expenses achievable within 24months after the Mortgage Loan Origination Date. |
| Appraisal | The Appraisal must include an opinion of the Property's market valueon 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 | Minimum 50%<br><br>• Physical Occupancy, and<br>• Economic Occupancy. |

| Topic | Description |
|---|---|
| Minimum DSCR During ROAR Work | Using the ROAR Stressed NCF, actual fixed interest rate, and maximum loan amount based on the "as completed" value<br><br>• 0.75 on an amortizing basis, or<br>• 1.00 on an interest-only basis, if applicable. |
| Rehabilitation Reserve Agreement | Required. |
| Key Principal Guaranties | The Key Principal must execute<br><br>• a Completion Guaranty (Form 6018), and<br>• an operating deficit guaranty. |
| • Letter of Credit, or<br>• Cash in Lieu of Letter of Credit | • Any Letter of Credit must:<br>- be in place on the Mortgage Loan Origination Date;<br>- comply with Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit; and<br>- equal at least 125% of the difference between the maximum Mortgage Loan amount based on the<br>▪ "as completed" value, and<br>▪ "as is" value.<br><br>• Any cash escrow used in place of a Letter of Credit must:<br>- be limited to 3 years or convert to a Letter of Credit after 3 years;<br>- be in place on the Mortgage Loan Origination Date;<br>- comply with Part V, Chapter 3: Custodial Accounts; and<br>- equal at least 125% of the difference between the maximum Mortgage Loan amount, based on the<br>▪ "as completed" value, and<br>▪ "as is" value. |

| Topic | Description |
| --- | --- |
| Additional Credit Support | May be required. |
| Underwriting Fee | You must:<br><br>• charge the Borrower an underwriting fee equal to 3 basis points of the Mortgage Loan amount; and<br>• pay that amount to Fannie Mae. |

# Glossary

## A

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| Appraisal | Written statement independently and impartially prepared by a qualified Appraiser stating an opinion of the Property's market value<br>• as of a specific date, and<br>• supported by the presentation and analysis of relevant market information.<br><br>**Synonyms**<br>• Appraisals<br>• Appraisal's |

## B

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| Borrower | Person who is the obligor per the Note.<br><br>**Synonyms**<br>• Borrowers<br>• Borrower's |

## C

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| 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.<br><br>**Synonyms**<br>• Credit Enhancement Instruments |

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| Credit Enhancement Mortgage Loan | Mortgage Loan financed by a Bond issuance where Fannie Mae provides credit enhancement by<br>• a Credit Enhancement Instrument, or<br>• an MBS for Bonds.<br><br>**Synonyms**<br>• Credit Enhancement Mortgage Loans |
| Custodial Account | Account established by the Servicer for depositing P&I payments, T&I payments, and escrow, reserve, or other funds received from the Borrower per any Loan Document, including the:<br>• Collateral Agreement;<br>• Multifamily Loan Agreement; or<br>• Security Instrument.<br><br>**Synonyms**<br>• Custodial Accounts |

# D

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| Debt Service Coverage Ratio | On an annual basis or any specified period, the ratio of Net Cash Flow to the total of: principal, interest, and required Mezzanine Financing or Hard Pay Preferred Equity payments.<br><br>**Synonyms**<br>• DSCR |

# F

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| 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.<br><br>**Synonyms**<br>• Multifamily Underwriting Standards |

# G

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| Gross Note Rate | Mortgage Loan interest rate stated in the Loan Documents. |
| 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.<br><br>**Synonyms**<br>• GPR |
| Guaranty | Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan. |

# I

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| 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).<br><br>**Synonyms**<br>• Improvements' |
| Investor | MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan.<br><br>**Synonyms**<br>• Investors<br>• Investor's |

# K

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| Key Principal | Person who<br>• controls and/or manages the Borrower or the Property,<br>• is critical to the successful operation and management of the Borrower and the Property, and/or<br>• may be required to provide a Guaranty.<br><br>**Synonyms**<br>• Key Principals<br>• Key Principal's |

# L

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| Letter of Credit | Letter of Credit approved by Fannie Mae per Part I, Chapter 2: Mortgage Loan, Section 204: Letters of Credit.<br><br>**Synonyms**<br>• Letters of Credit<br>• Letter of Credit's<br>• LOC<br>• LOCs |
| Low-Income Housing Tax Credit | Federal program offering tax credits to owners of eligible properties that contain low-income occupants and rent restrictions.<br><br>**Synonyms**<br>• Low-Income Housing Tax Credits<br>• Low Income Housing Tax Credits<br>• LIHTC<br>• LIHTCs |

# M

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

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| Mortgage Loan | Mortgage debt obligation evidenced, or when made will be evidenced, by<br>• the Loan Documents, or<br>• a mortgage debt obligation with a Fannie Mae credit enhancement.<br><br>**Synonyms**<br>• Mortgage Loans<br>• Mortgage Loan's |
| Mortgage Loan Origination Date | Date you fund a Mortgage Loan to the Borrower.<br><br>**Synonyms**<br>• Mortgage Loan's Origination Date<br>• Origination Date |
| Multifamily Affordable Housing Property | Property that:<br>• complies with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 702: MAH Property Eligibility; and<br>• is underwritten per Part III, Chapter 7: Multifamily Affordable Housing Properties.<br><br>**Synonyms**<br>• MAH<br>• Multifamily Affordable Housing<br>• MAH Property |

# N

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| 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.<br><br>**Synonyms**<br>• NCF |

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|---|---|
| Note | Instrument evidencing a Mortgage Loan obligation, including<br>• Form 6010 series,<br>• any other Fannie Mae-approved note, and<br>• all applicable<br>  - addenda,<br>  - schedules, and<br>  - exhibits.<br><br>**Synonyms**<br>• Notes |

# P

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|---|---|
| Principal | Person who owns or controls, in the aggregate, directly or indirectly (together with that Person's Immediate Family Members, if an individual), specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors.<br><br>**Synonyms**<br>• Principals |
| Property | Multifamily residential real estate securing the Mortgage Loan, including the<br>• fee simple or Leasehold interest,<br>• Improvements, and<br>• personal property (per the Uniform Commercial Code).<br><br>**Synonyms**<br>• Properties<br>• Property's |

# R

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| Reduced Occupancy Affordable Rehabilitation Work | Aggregate repairs, replacements, or improvements being performed at the ROAR Property.<br><br>**Synonyms**<br>• ROAR Work |

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| 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 or Form 4523). |
| Replacements | Capital item replacements and major maintenance needs identified by the Property Condition Assessment or otherwise required.<br><br>**Synonyms**<br>• Replacement |
| 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

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| Sponsor | Principal equity owner and/or primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).<br><br>**Synonyms**<br>• Sponsors<br>• Sponsor's |
| Stabilized Residential Occupancy | Percentage of Property units physically occupied by Qualified Occupants, per Part II, Chapter 1: Attributes and Characteristics, Section 107.02: Qualified Occupants as adjusted for the applicable Part III products and features. |

# U

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|---|---|
| Underwritten Debt Service Coverage Ratio | Ratio of Underwritten Net Cash Flow to the annual debt service for a Mortgage Loan amount based on a level debt service payment with the applicable amortization, and calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis, as adjusted for the applicable products and features in Part III.<br><br>**Synonyms**<br>• Underwritten DSCR |