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:

- Sponsors 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. • 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% • Physical Occupancy, and • 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 • 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, or • Cash in Lieu of Letter of Credit	• Any Letter of Credit must: - be in place on the Mortgage Loan Origination Date; - comply with Part 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 ▪ as is value. • Any cash escrow used in place of a Letter of Credit must: - be limited to 3 years or convert to a Letter of Credit after 3 years; - be in place on the Mortgage Loan Origination Date; - comply with Part V, Chapter 3: Custodial Accounts; and - equal at least 125% of the difference between the maximum Mortgage Loan amount, based on the ▪ as completed value, and ▪ as is value.

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

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

B

Borrower	Person who is the obligor per the Note. **Synonyms** • Borrowers • Borrower's

C

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 financed by a Bond issuance where Fannie Mae provides credit enhancement by • a Credit Enhancement Instrument, or • an MBS for Bonds. **Synonyms** • 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: • Collateral Agreement; • Multifamily Loan Agreement; or • Security Instrument. **Synonyms** • Custodial Accounts

D

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. **Synonyms** • DSCR

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

G

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. **Synonyms** • GPR
Guaranty	Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.

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'
Investor	MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan. **Synonyms** • Investors • Investor's

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

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 • Letter of Credit's • LOC • LOCs
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 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

P

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. **Synonyms** • Principals
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

Reduced Occupancy Affordable Rehabilitation Work	Aggregate repairs, replacements, or improvements being performed at the ROAR Property. **Synonyms** • ROAR 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).
Replacements	Capital item replacements and major maintenance needs identified by the Property Condition Assessment or otherwise required. **Synonyms** • 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

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
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

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. **Synonyms** • Underwritten DSCR