



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 1903.03B Construction and Feasibility Review

### ➔ Guidance

You should:

- Assess the:
  - construction lender's capacity to fund and monitor the construction loan; and
  - ability of the development team and general contractor to
    - complete the project, and
    - post an acceptable bond or letter of credit for the construction lender.
- Review and approve the:
  - project budget, including construction contingencies, and align any deferred development fee to market rates;
  - LIHTC equity funding schedule;
  - pro forma underwriting;
  - feasibility of repaying the construction loan at conversion, including:
    - evaluating several stress-test scenarios such as a decline in rents, an increase in operating expenses, or other circumstances;
    - having the LIHTC investor or construction lender retain an appropriate portion of the development fee until specified construction and lease up milestones are met;
    - the sufficiency of the LIHTC investor's equity funding; and
    - the availability of other capital sources such as grants or subordinate debt;
  - absorption schedule, including a capture band analysis of submarket income;
  - Borrower organizational documents;
  - Affordable Regulatory Agreements; and
  - Subordinate Loan documents.
- Ensure the Forward Commitment term is sufficient to allow for:
  - the Property to be completed and leased;



- you to submit the conversion package;
- Fannie Mae to approve the conversion; and
- you to Deliver the permanent Mortgage Loan.



# Glossary

## B

**Borrower** Person who is the obligor per the Note.

**Synonyms**

- Borrowers
- Borrower's

## F

**Forward Commitment** Commitment to purchase a permanent Mortgage Loan for a to-be constructed or rehabilitated Property.

**Synonyms**

- Forward Commitment's
- Forward Commitments

## M

**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

## P



## 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

## S

## Subordinate Loan

Multifamily residential real estate loan secured by a Lien against the Property having a lesser priority than the Lien securing another multifamily residential real estate loan on the same Property.

### **Synonyms**

- Subordinate Loans