



Fannie Mae®

Multifamily Selling and Servicing Guide

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202.03 Valuation

202.03A Appraised Value

Requirements

You must ensure:

- the Appraiser's engagement letter requires compliance with Instructions for Appraisers ([Form 4827](#));
- the Appraiser provides an opinion of the market value on an "as is" basis;
- the Appraiser's opinion of the market value covers:
 - each separate Project per [Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership](#); and
 - the aggregate market value of all Projects; and
- regardless of any allocation in the purchase/sales agreement, the Appraiser's opinion of the market value excludes any value from
 - goodwill,
 - business value (permitted for Seniors Housing Properties),
 - intangibles,
 - furniture,
 - fixtures (unless customary in the market), or
 - equipment.

You may also request the Appraiser provide an opinion of the Property's market value on an "as completed" basis, but you must only use an "as completed" value if all of the following apply:

- less than 12 months have passed between the
 - Borrower's Acquisition, and
 - Commitment Date;
- for any capital improvements completed after the Mortgage Loan Origination Date to be considered in an "as completed" value, they must be:
 - Immediate Repairs listed in the PCA; or
 - improvements identified by the Borrower, if you agree the



improvements will add Property value;

- all capital improvements are included in either the
 - Completion/Repair Schedule, or
 - Rehabilitation Reserve Agreement;
- sufficient funds to complete all capital improvements are deposited into either the Completion/Repair Escrow or the Rehabilitation Reserve Account:
 - for capital improvements identified as Immediate Repairs, the funds must cover any higher funding percentage you require; and
 - for capital improvements identified by the Borrower, the funds must cover the estimated cost (including a cost overrun allowance); and
- all capital improvements must be completed within:
 - 12 months after the Mortgage Loan Origination Date, if identified by the Borrower; or
 - any shorter time period per [Part II, Chapter 4: Lease Audits, Inspections, and Reserves, Section 405: Completion/Repairs](#), if listed as Immediate Repairs.

202.03B Property's Sale History

Requirements

You must:

- analyze the Property's sale history for the last 3 years, including any transfer of a Controlling Interest in the owner;
- address the following in your Transaction Approval Memo:
 - if a sale occurred within the last 24 months, document the
 - circumstances of the sale, and
 - support for any increased Appraised Value by analyzing any
 - Net Cash Flow increases,
 - capitalization rate compression, and
 - value-add market drivers; and
 - if any stated sales price per the purchase/sales agreement differs from the transfer price per the public records or third-party reports,



investigate and document the discrepancy;

- for any Acquisition, confirm the seller was the Property owner in the real estate records when the purchase/sales agreement was signed;
- evaluate the purchase/sale contracts to
 - clearly identify the
 - seller, and
 - purchaser, and
 - confirm the sale was an arm's length transaction;
- review the final settlement statement before the Mortgage Loan Origination Date to confirm accuracy of the
 - purchase price,
 - closing costs, and
 - any cash in/out to the seller and purchaser; and
- submit a copy of:
 - the final settlement statement at Delivery; and
 - all purchase/sales contracts and amendments to
 - the Appraiser, and
 - Fannie Mae.

202.03C Underwriting Value

Requirements

Your Underwriting Value must not exceed the Appraised Value, as reduced by any adjustments you deem necessary, accounting for:

- your analysis of the Property's sales history; and/or
- Property deficiencies that cannot be cured within 6 months after the Appraisal Date.

If less than 12 months have passed between the Borrower's Acquisition and the Commitment Date, your Underwriting Value must not exceed the lower of the

- Appraised Value, or
- sum of the:



- Property's Acquisition price per the title company settlement statement, with no allocations to:
 - goodwill,
 - business value (permitted for Seniors Housing Properties),
 - intangibles,
 - furniture,
 - fixtures (unless customary in the market), or
 - equipment;
- cost of capital improvements or repairs that increase the Property's value, if
 - completed and fully paid, or
 - sufficient funds for completion are deposited in the Completion/Repair Escrow or reserve account; and
- actual Acquisition costs, not exceeding 3% of the Acquisition price (but excluding all costs or fees paid to a Borrower Affiliate), including:
 - Origination Fee;
 - arm's length Acquisition fee (generally 1% - 2%) paid to an unrelated Person if documented in the Settlement Statement;
 - third-party report fees;
 - Borrower-paid legal fees incurred on your behalf;
 - title search and title insurance fees;
 - survey fees;
 - real estate and stamp taxes;
 - deed-recording fees; and
 - credit report charges.

➔ Guidance

Actual Acquisition costs should exclude any prepaid operating expenses or deposits applied toward future operating expenses or Property improvements, including:

- prepaid or escrowed
 - real estate taxes, or



- insurance premiums;
- prepaid
 - utilities,
 - Mortgage Loan interest, including any interest rate buydown expense,
 - rents, or
 - security deposits;
- funded
 - Replacement Reserve (including any initial deposit),
 - Interest Rate Cap cost,
 - operating or Restabilization Reserve, or
 - Borrower-controlled Property operating or capital accounts;
- fees included in the Gross Note Rate, including any
 - Origination Fee, or
 - broker fee; and
- for an MAH Property, pre-paid Bond-related and compliance monitoring fees.



Glossary

A

Acquisition

Any Purchase of either the:

- Property's fee simple or leasehold interest via a deed transfer; or
- Controlling Interest in the Borrower.

Synonyms

- Acquisitions

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

Appraisal Date

Effective date of value in the Appraisal.



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

Appraiser Person engaged to estimate a Property's market value per USPAP.

Synonyms

- Appraiser's
- Appraisers

B

Borrower Person who is the obligor per the Note.

Synonyms

- Borrowers
- Borrower's

C

Commitment Date Date a Commitment is confirmed by Fannie Mae per [Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments](#).

Completion/Repair Escrow Custodial Account funded on the Mortgage Loan Origination Date for Completion/Repairs or capital improvements per the Loan Documents.



Completion/Repair Schedule

The Required Repair Schedule to the Multifamily Loan Agreement ([Form 6001 series](#)) and the applicable parts of the Multifamily Loan Agreement, or other Fannie Mae-approved agreement, evidencing:

- the Borrower's agreement to
 - fund the Completion/Repair Escrow, and
 - perform Completion/Repairs; and
- Completion/Repair Escrow disbursement terms.

Synonyms

- Completion/Repair Schedules

Completion/Repairs

Repairs or capital item replacements and deferred maintenance:

- identified per the Property Condition Assessment; and
- required per the
 - Completion/Repair Schedule, or
 - Completion/Repair Agreement.

Synonyms

- Completion/Repair

Controlling Interest

For any entity, ownership or control of 50% or more of the ownership interests in the entity or the power or right to control or modify, directly or indirectly, the management and operations of the entity.

D

Delivery

Submission of all correct, accurate, and certifiable documents, data, and information with all applicable documents properly completed, executed, and recorded as needed, and any deficiencies resolved to Fannie Mae's satisfaction.

Synonyms

- Deliver
- Delivered
- Deliveries

G



Gross Note Rate

Interest rate stated in the Loan Documents.

I

Interest Rate Cap

Interest rate agreement between the Borrower and a provider for which the Borrower receives payments at the end of each period when the interest rate exceeds the Cap Strike Rate. The Interest Rate Cap provides a ceiling (or cap) on the Borrower's Mortgage Loan interest payments.

Synonyms

- Interest Rate Caps
- Interest Rate Hedge
- Interest Rate Hedges
- Interest Rate Swap
- Interest Rate Cap's

L

Lease

Written agreement between an owner and the tenant of a Property stipulating the conditions for possession and use of real estate for a specified period of time and rent.

Synonyms

- Leases

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



Mortgage Loan
Origination Date

Date you fund a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date

N

Net Cash Flow

On an annual basis or any specified period, the total Net Operating Income, minus the full amount underwritten for Replacement Reserve expense, regardless of whether deposits will be made (per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III).

Synonyms

- NCF

O

Origination Fee

Fee you charge the Borrower for underwriting and originating the Mortgage Loan.

Synonyms

- Origination Fees

P



Person

Legal person, including an

- individual,
- estate,
- trust,
- corporation,
- partnership,
- limited liability company,
- financial institution,
- joint venture,
- association, or
- other organization or entity (whether governmental or private).

Synonyms

- Persons
- Person's

Project

Multifamily buildings

- on multiple Properties,
- owned by the same Borrower, and
- that comply with [Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership](#).

Synonyms

- Projects

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



Rehabilitation Reserve Account Custodial Account established by the Lender and funded by deposits from the Borrower per the Rehabilitation Reserve Agreement to fund the Rehabilitation Work.

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](#)).

Replacement Reserve Custodial Account the Borrower funds during the Mortgage Loan term for Replacements.

Synonyms

- Replacement Reserves

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](#).