



Fannie Mae®

Multifamily Selling and Servicing Guide

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Section 1907 Credit Enhancing Variable Rate Bonds

1907.01 Terms

➔ Guidance

Fannie Mae does not provide liquidity support for variable rate demand Bonds.

☑ Requirements

Terms	Credit Enhancement Instrument	MBS for Bonds
Variable Interest Rate	<p>A Bond and Credit Enhancement Mortgage Loan must have an interest rate linked to</p> <ul style="list-style-type: none">• the SIFMA Municipal Swap Index,• an Index that adjusts weekly, or• a SOFR-based index.	<ul style="list-style-type: none">• Mortgage Loan must comply with Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.• Bonds must have an interest rate linked to a SOFR-based index.
Bond Liquidity	You must obtain Fannie Mae's approval for any third party providing Bond liquidity support.	



Terms	Credit Enhancement Instrument	MBS for Bonds
No New 4% LIHTCs	Credit Enhancement Mortgage Loan must have a term of at least 5 years, with a maximum of 30 years.	Credit Enhancement Mortgage Loan must have a: <ul style="list-style-type: none"> • term of at least 5 years, with a maximum of 30 years; and • Maturity Date coinciding with the <ul style="list-style-type: none"> - final Bond maturity date, adjusted for applicable payment timing differences, or - initial Bond tender and remarketing, if the Bond has a scheduled mandatory tender date for remarketing.
New 4% LIHTCs	Credit Enhancement Mortgage Loan must have a term of at least 10 years, with a maximum of 30 years.	Credit Enhancement Mortgage Loan must have a: <ul style="list-style-type: none"> • term of at least 10 years, with a maximum of 30 years; and • Maturity Date coinciding with the <ul style="list-style-type: none"> - final Bond maturity date, adjusted for applicable payment timing differences, or - initial Bond tender and remarketing, if the Bond has a scheduled mandatory tender date for remarketing.
Maximum NoteRate	Determined by Fannie Mae.	Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.



Terms	Credit Enhancement Instrument	MBS for Bonds
Amortization	For a variable rate Credit Enhancement Mortgage Loan using an Interest Rate Cap, use the greater of the <ul style="list-style-type: none"> • Maximum Note Rate, or • actual Cap Strike Rate. 	Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.
Maximum SARM Loan	Per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans.	
PRF	You must establish a PRF.	Not applicable.
Fannie Mae Fees	Credit Enhancement Fee.	Guaranty Fee.
Trustee Fee and Bond Issuer Fee	Underwritten as <ul style="list-style-type: none"> • an operating expense, or • part of the Gross Note Rate. 	Underwritten as an operating expense.
Gross Note Rate	Sum of the <ul style="list-style-type: none"> • Bond interest rate, • Facility Fee (calculated per Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1908: Facility Fee) divided by the Bond UPB, • trustee fee and Bond Issuer fee, if they are not underwritten as an operating expense, and • cap cost factor. 	Sum of the <ul style="list-style-type: none"> • Bond interest rate, • Guaranty Fee, and • Servicing Fee.

1907.02 Principal Reserve Fund

 Operating Procedures



Topics	Principal Reserve Fund Process
Borrower Election	<p>Before Commitment, the Borrower must select 1 of the following options to redeem Bonds:</p> <ul style="list-style-type: none">• Minimum Dollar Balance:<ul style="list-style-type: none">- Required option for a non-single-asset entity Borrower.- PRF deposits accumulate until the balance is at least \$100,000.- Bonds eligible for redemption are redeemed in \$100,000 increments.• Minimum Percentage Balance:<ul style="list-style-type: none">- PRF deposits accumulate until the balance is at least \$100,000 greater than 20% of the original Bond principal amount.- Bonds eligible for redemption are redeemed in \$100,000 increments, but the redemption payments may not reduce the PRF balance below 20% of the original Bond principal amount.
PRF Deposit Amount	<p>PRF deposits represent the principal amortization amount of the Credit Enhancement Mortgage Loan based on</p> <ul style="list-style-type: none">• level P&I payments throughout the Bond term, and• amortization per Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1907.01: Terms.
PRF Deposit Schedule	<p>On the Mortgage Loan Origination Date, you must calculate and attach the Schedule of Deposits to the Principal Reserve Fund to the Reimbursement Agreement.</p>

1907.03 Interest Rate Cap

Requirements



Terms	You must ensure the third-party Interest Rate Cap...
Interest Rate Cap	For a variable rate Credit Enhancement Mortgage Loan with variable rate Bonds, is purchased and maintained for the entire time the variable rate Bonds are credit enhanced.
Index	Has the same Index as the variable rate Bonds.
Interest Rate Cap Provider	Is obtained from an approved provider listed on https://multifamily.fanniemae.com .
Initial Interest Rate Cap	Notional Amount equals the Bond UPB when the Interest Rate Cap is purchased.
Minimum Interest Rate Cap Term	Agreement remains continually in place until the earlier of <ul style="list-style-type: none"> • 5 years, or • the remaining Bond term.
Replacement Interest Rate Cap	Replacement is purchased if the existing Interest Rate Cap expires before the variable rate Bond conversion or Maturity Date.
Cap Strike Rate for Replacement Interest Rate Cap	Cap Strike Rate for the Replacement Interest Rate Cap is the same or lower than that of the initial Interest Rate Cap.
Cap cost factor	Cost factor is included in the Maximum Note Rate per Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1907.05: Cap Cost Factor Included in Maximum Note Rate .
Interest Rate Cap Reserve Adjustment	Cash reserve: <ul style="list-style-type: none"> • is evaluated at the end of each 6-month period to determine if the cost of the replacement Interest Rate Cap has increased, based on market conditions; and • future deposits are not decreased even if the future Interest Rate Cap cost has decreased.



Terms	You must ensure the third-party Interest Rate Cap...
Documents	Documents are: <ul style="list-style-type: none">• on acceptable forms; and• delivered to Fannie Mae, including the<ul style="list-style-type: none">- Interest Rate Cap Agreement, and- applicable Interest Rate Cap Reserve and Security Agreement (Form 6442 series).

Operating Procedures

Fannie Mae will engage outside counsel at your expense to review all Interest Rate Cap-related documents.

1907.04 Cap Strike Rate

Operating Procedures

The Borrower must purchase an Interest Rate Cap with a Cap Strike Rate that is determined

- for a Credit Enhancement Instrument, by Fannie Mae, or
- for an MBS for Bonds, per Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.02: Determining the Cap Strike Rate.

1907.05 Cap Cost Factor Included in Maximum Note Rate

Requirements

When determining the Maximum Note Rate used to calculate the minimum required Underwritten DSCR, you must include a cap cost factor based on the term of the

- Credit Enhancement Mortgage Loan, and
- initial Interest Rate Cap.

You do not need to include a cap cost factor if the initial Interest Rate Cap term equals the Credit Enhancement Mortgage Loan term.

You must ensure the cap cost factor equals the



- estimated cost of the replacement cap (when the term of the initial cap expires), divided by
- term of the initial cap.

Operating Procedures

For example, to calculate the cap cost factor assuming a 5-year Interest Rate Cap and 10-year Credit Enhancement Mortgage Loan term:

- You must include an annual cap cost factor in the Maximum Note Rate.
- If the Credit Enhancement Mortgage Loan term is 10 years and an initial cap is purchased for a 5-year term, the cap cost factor equals the estimated cost of a replacement cap divided by 5 (the number of years of the initial interest rate term).
- The replacement cap has a 5-year term and a Cap Strike Rate equal to that of the initial cap.
- If a 5-year Interest Rate Cap at the initial Cap Strike Rate costs 20 basis points, you must divide 20 by 5, then add the result (4 basis points) to the Maximum Note Rate.

1907.06 Interest Rate Cap Reserve

Requirements

You must ensure the Borrower fully funds a cash reserve to purchase replacement Interest Rate Caps.

Operating Procedures

- If the initial Interest Rate Cap Agreement term is 5 years, you must ensure the Borrower funds the cash reserve with each monthly Mortgage Loan payment during the term.
- Calculate the monthly reserve payments for the first 6 months using the estimated cost of a replacement Interest Rate Cap with a 5-year term and the initial Cap Strike Rate.
- If the initial Interest Rate Cap term is more than 5 years, you must ensure the Borrower's monthly reserve payments for the replacement cap begin no later than 5 years before the existing Interest Rate Cap expires.

Guidance

For example, if



- a 5-year initial Interest Rate Cap is purchased with a 10-year term and a 6.00% Cap Strike Rate, and
- the cost of a replacement 5-year cap with a 6.00% Cap Strike Rate is \$140,000, then
- the monthly reserve for the first 6 months would be \$2,333.33 ($\$140,000 \div 60$ months).

1907.07 Interest Rate Cap Reserve Adjustments

Requirements

You must evaluate the Interest Rate Cap reserve every 6 months. If the replacement Interest Rate Cap cost:

- increased, you must raise the monthly reserve payment to purchase the replacement Interest Rate Cap before the existing Interest Rate Cap expires; or
- decreased, do not adjust the reserve.

When a replacement Interest Rate Cap is purchased, the reserve cycle resets to match the term of the new Interest Rate Cap. Any amount remaining in the reserve after purchasing the replacement Interest Rate Cap must be used to fund the subsequent reserve.

1907.08 Interest Rate Cap Contract Documentation and Delivery

Requirements

For credit enhancements using:

- an MBS, you must comply with [Part III, Chapter 12: Structured Adjustable Rate Mortgage \(SARM\) Loans, Section 1205.04: Interest Rate Cap Contract Documentation and Delivery](#); or
- a Credit Enhancement Instrument, this Section applies.

Operating Procedures



Topic	Process
Cap Provider Payment	<p>You must ensure the Interest Rate Cap provider pays you or the Bond Trustee directly</p> <ul style="list-style-type: none">• on the 1st or 15th day of the month corresponding with the Bond payment dates, and• when the Bond interest rate index is greater than the average Cap Strike Rate for a month. <p>Only disburse a provider payment to the Borrower if</p> <ul style="list-style-type: none">• there is no Mortgage Loan default, and• you received all payments due under the Indenture and Bonds for that month. <p>If the Borrower defaults under the Mortgage Loan or Reimbursement Agreement, you must</p> <ul style="list-style-type: none">• promptly notify Fannie Mae and any applicable Bond Trustee, and• direct the Bond Trustee to suspend its payment to the Borrower.
Timing	<p>The Borrower must accept a bid for the initial Interest Rate Cap in writing from a Fannie Mae approved provider before you request a Commitment.</p>
Purchase Price	<p>The Borrower must pay the entire purchase price for an Interest Rate Cap to the provider when the Interest Rate Cap Agreement is issued.</p>
Pledge to Fannie Mae	<p>The Borrower must pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae using the documentation provided by Fannie Mae's counsel.</p>



Glossary

B

Bond Trustee Trustee for a Credit Enhancement Instrument.

Synonyms

- Bond Trustee's

Bonds Tax-exempt or taxable multifamily revenue bonds, or other tax-exempt or taxable bonds, issued to finance 1 or more Credit Enhancement Mortgage Loan Properties.

Synonyms

- Bond

Borrower Person who is the obligor per the Note.

Synonyms

- Borrowers
- Borrower's

C

Cap Strike Rate Index interest rate specified in the Interest Rate Cap Agreement at or above which a payment obligation will be triggered by the Interest Rate Cap provider.

Commitment Contractual agreement between you and Fannie Mae where Fannie Mae agrees to buy a Mortgage Loan at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and you agree to Deliver that Mortgage Loan.

Synonyms

- Committed
- Commitments



Credit Enhancement Fee

Fee due to Fannie Mae for a Credit Enhancement Instrument.

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

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.



Guaranty Fee Fee retained by Fannie Mae for credit enhancing a Mortgage Loan or assuming credit risk on a Mortgage Loan, and which may be expressed as a percentage.

Synonyms

- Guaranty Fees

I

Indenture Bond issuer trust indenture or resolution listing Bond terms.

Index Basis for determining the Gross Note Rate of an ARM Loan, including any required alternative index that may be determined necessary by Fannie Mae because the Index is no longer widely accepted or has been replaced as the index for similar financial instruments.

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

Interest Rate Cap Agreement Contract setting forth the terms and conditions of an Interest Rate Cap, Hedge, or Swap.

Synonyms

- Interest Rate Hedge Agreement
- Interest Rate Swap Agreement



Issuer Entity that:

- issues Bonds for a Credit Enhancement Mortgage Loan;
- packages mortgages for sale as a Security for an MBS; or
- issues a Letter of Credit.

Synonyms

- Issuers

M

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

Synonyms

- Maturity Dates

Maximum Note Rate Equals the sum of the:

- minimum Cap Strike Rate as set by Fannie Mae; and
- Mortgage Loan margin equal to the sum of the
 - Investor spread,
 - Guaranty Fee, and
 - Servicing Fee.

MBS Mortgage-Backed Security

MBS for Bonds Fannie Mae MBS:

- issued to credit enhance tax-exempt Bonds; or
- exchanged for Bonds redeemed at MBS issuance.

Synonyms

- MBS Exchange
- MTEB
- MTEM



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

P&I

Principal and interest

PRF

Account you hold accumulating principal amortization payments for variable rate Bond credit enhancements.

Synonyms

- Principal Reserve Fund

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

S



Security

MBS, PFP MBS, or REMIC.

Synonyms

- Securities

Servicing Fee

Fee a Servicer receives for collecting payments, managing operational procedures, and assuming your portion of credit risk for a Mortgage Loan, and which may be expressed as a percentage.

Synonyms

- Servicing Fees

SIFMA Municipal Swap Index

The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index.

U

UPB

Unpaid Principal Balance

Synonyms

- UPBs