



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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### 1807.03 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 <a href="https://multifamily.fanniemae.com">https://multifamily.fanniemae.com</a> .
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"> <li>• 5 years, or</li> <li>• the remaining Bond term.</li> </ul>
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 18: Bond Transactions and Credit Enhancement Mortgage Loans, Section 1807.05: Cap Cost Factor Included in Maximum Note Rate.



Terms	You must ensure the third-party Interest Rate Cap...
Interest Rate Cap Reserve Adjustment	Cash reserve: <ul style="list-style-type: none"><li>• 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</li><li>• future deposits are not decreased even if the future Interest Rate Cap cost has decreased.</li></ul>
Documents	Documents are: <ul style="list-style-type: none"><li>• on acceptable forms; and</li><li>• delivered to Fannie Mae, including the<ul style="list-style-type: none"><li>- Interest Rate Cap Agreement, and</li><li>- applicable Interest Rate Cap Reserve and Security Agreement (<a href="#">Form 6442 series</a>).</li></ul></li></ul>

 Operating Procedures

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



# Glossary

## B

**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

## 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.

**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

## I

**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

## **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.

## **S**



Security

MBS, PFP MBS, or REMIC.

**Synonyms**

- Securities

**U**

UPB

Unpaid Principal Balance

**Synonyms**

- UPBs