



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 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.](#)



## Glossary

### B

**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.

**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

### 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



# M

## 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