



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 1807.06 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).



# 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.

## 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

**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



## 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