

# Multifamily Selling and Servicing Guide

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#### **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 cost ÷ 60 months).

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# **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.

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#### **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.

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# **Synonyms**

- Mortgage Loans
- Mortgage Loan's