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# Multifamily Selling and Servicing Guide

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## 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.



# Glossary

## 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