



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## 1807.08 Interest Rate Cap Contract Documentation and Delivery

### Requirements

For credit enhancements using:

- an MBS, you must comply with [Part III, Chapter 11: Structured Adjustable Rate Mortgage \(SARM\) Loans, Section 1105.04: Interest Rate Cap Contract Documentation and Delivery](#); or
- a Credit Enhancement Instrument, this Section applies.

### Operating Procedures

Topic	Process
Cap Provider Payment	<p>You must ensure the Interest Rate Cap provider pays you or the Bond Trustee directly</p> <ul style="list-style-type: none"><li>• on the 1st or 15th day of the month corresponding with the Bond payment dates, and</li><li>• when the Bond interest rate index is greater than the average Cap Strike Rate for a month.</li></ul> <p>Only disburse a provider payment to the Borrower if</p> <ul style="list-style-type: none"><li>• there is no Mortgage Loan default, and</li><li>• you received all payments due under the Indenture and Bonds for that month.</li></ul> <p>If the Borrower defaults under the Mortgage Loan or Reimbursement Agreement, you must</p> <ul style="list-style-type: none"><li>• promptly notify Fannie Mae and any applicable Bond Trustee, and</li><li>• direct the Bond Trustee to suspend its payment to the Borrower.</li></ul>
Timing	<p>The Borrower must accept a bid for the initial Interest Rate Cap in writing from a Fannie Mae approved provider before you request a Commitment.</p>



Topic	Process
Purchase Price	The Borrower must pay the entire purchase price for an Interest Rate Cap to the provider when the Interest Rate Cap Agreement is issued.
Pledge to Fannie Mae	The Borrower must pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae using the documentation provided by Fannie Mae's counsel.



# Glossary

## B

**Bond Trustee** Trustee for a Credit Enhancement Instrument.

**Synonyms**

- Bond Trustee's

**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

**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.

**Commitment** Contractual agreement between you and Fannie Mae where Fannie Mae agrees to buy a Mortgage Loan at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and you agree to Deliver that Mortgage Loan.

**Synonyms**

- Committed
- Commitments



## 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

## **D**

### Delivery

Submission of all correct, accurate, and certifiable documents, data, and information with all applicable documents properly completed, executed, and recorded as needed, and any deficiencies resolved to Fannie Mae's satisfaction.

### **Synonyms**

- Deliver
- Delivered
- Deliveries

## **I**

### Indenture

Bond issuer trust indenture or resolution listing Bond terms.

### 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**

MBS

Mortgage-Backed Security

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