



Multifamily Selling and Servicing Guide

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Chapter 11 Adjustable Rate Mortgage (ARM) Loans

Section 1101 Description

Requirements

An ARM Loan has

- an interest rate that is adjusted periodically based on a specified Index, and
- payments that are adjusted to repay the UPB in substantially equal payments over the remaining amortization period.

| Product Description | |
|-------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Plan Number | 02255 |
| Terms | <ul style="list-style-type: none">• 5, 7, or 10 years.• See Pricing Memo for current term availability. |
| Index | 1-month LIBOR |
| Interest Rate Floor | Must not be less than the combined <ul style="list-style-type: none">• Guaranty Fee, plus• Servicing Fee, plus• investor spread. |
| Rate Change Date | Date the interest rate changes based on changes in the Index. |
| Prepayment Availability | <ul style="list-style-type: none">• No prepayment during the 1st Loan Year; then prepayable with a 1% Prepayment Premium.• No Prepayment Premium is due<ul style="list-style-type: none">- during the last 3 months of the loan term, or- when an ARM Loan converts to a fixed rate Mortgage Loan. |



| Product Description | |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Maturity | Matures on the 5th, 7th, or 10th anniversary of the 1st day of the month: <ul style="list-style-type: none"> • immediately following the month in which the Mortgage Loan was originated; or • in which the Mortgage Loan was originated, if the Mortgage Loan Origination Date was on the 1st day of a month. |
| Payments | Scheduled monthly payments are due on the 1st day of each month. |
| Interest Rate Change Frequency | Monthly |
| Maximum Interest Rate Change | Plus or minus 1% of the then-current interest rate. |
| Maximum Lifetime Interest Rate Limit | For ARM 7/6, the <ul style="list-style-type: none"> • Guaranty Fee, plus • Servicing Fee, plus • 6%. |
| Index Look-Back Period | 15 days before the Rate Change Date. |
| Interest Accrual Method | Actual/360 |
| Interest Rate Cap | Not required; interest rate adjustments are subject to an embedded cap. |
| Conversion to Fixed Rate | Permitted between the 1st day of the 2nd Loan Year and the last day of the: <ul style="list-style-type: none"> • 4th Loan Year if the loan term is 5 years; or • 5th Loan Year if the loan term is greater than 5 years. |

Section 1102

Underwriting

Requirements

You must Rate Lock the ARM Loan with the Multifamily Trading Desk (MBS or cash).



You must ensure that the maximum ARM Loan amount is the lowest of the amount:

- calculated applying the applicable minimum DSCR per Form 4660 for both the
 - maximum lifetime interest rate limit, and
 - Fixed Rate Test per Form 4660;
- calculated using the applicable maximum LTV per Form 4660; and
- you determined is appropriate.

You must use the Fixed Rate Test interest rate to determine the UPB for the refinance risk analysis per [Part II, Chapter 2: Valuation and Income, Section 203: Refinance Risk Analysis](#).

Section 1103 Prepayment Terms

1103.01 Generally

Requirements

The following table describes various situations and the applicable prepayment provisions; see [Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing](#) for Prepayment Premium calculations and sharing between you and Fannie Mae.

| Situation | Prepayment Provisions |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| Borrower attempts to make a voluntary prepayment during the 1st Loan Year. | Borrower may not make a voluntary prepayment during the 1st Loan Year (i.e., a voluntary prepayment is locked out). |
| ARM Loan is accelerated during the prepayment lockout period. | Borrower owes a 5% Prepayment Premium. |
| Borrower makes a prepayment after the 1st Loan Year and before the 3 months prior to the Maturity Date for any reason other than a casualty or condemnation. | Borrower owes a Prepayment Premium. |
| ARM Loan converts to a fixed rate Mortgage Loan. | Borrower does not owe a Prepayment Premium. |



| Situation | Prepayment Provisions |
|---------------------------------------------------------------------------|---------------------------------------------|
| Borrower makes a prepayment during the 3 months before the Maturity Date. | Borrower does not owe a Prepayment Premium. |
| Borrower makes a prepayment due to casualty or condemnation. | Borrower does not owe a Prepayment Premium. |

1103.02 1% Prepayment Premium Schedule

Requirements

After the 1st Loan Year, the Prepayment Premium will be 1% for any reason other than a casualty or condemnation.

| Loan Year | 5-Year Term | 7-Year Term | 10-Year Term |
|-----------------------------|-------------|-------------|--------------|
| 1 (Locked Out) ¹ | N/A | N/A | N/A |
| 2 | 1% | 1% | 1% |
| 3 | 1% | 1% | 1% |
| 4 | 1% | 1% | 1% |
| 5 | 1% | 1% | 1% |
| 6 | N/A | 1% | 1% |
| 7 | N/A | 1% | 1% |
| 8 | N/A | N/A | 1% |
| 9 | N/A | N/A | 1% |
| 10 | N/A | N/A | 1% |

¹During the lockout period, the Borrower may not voluntarily prepay the ARM Loan. If the ARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.



Glossary

B

Borrower Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

F

Form 4660 Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the minimum underwriting requirements (e.g., debt service coverage ratio, loan to value ratio, interest only, underwriting floors, etc.) for all Mortgage Loans.

Synonyms

- Multifamily Underwriting Standards

G

Guaranty Fee Fee retained by Fannie Mae for credit enhancing a Mortgage Loan or assuming credit risk on a Mortgage Loan.

Synonyms

- Guaranty Fees

I

Index Basis for determining the Gross Note Rate of an ARM Loan.



Interest Rate Cap

Interest rate agreement between the Borrower and a hedge 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 interest payments on the Mortgage Loan.

Synonyms

- Interest Rate Hedge
- Interest Rate Hedges
- Interest Rate Swap

L

LIBOR

London Interbank Offered Rate is the benchmark interest rate banks quote to lend funds to one another in the international interbank market for short-term loans, or as replaced by an alternative Index determined by Fannie Mae.

Loan Year

Period beginning on the date of the Note and ending on the last day of the month that is 12 full months after the date of the Note, and each successive 12-month period thereafter.

M

Maturity Date

Date all amounts due and owing under the Mortgage Loan become fully due and payable per the Loan Documents.

Synonyms

- Maturity Dates

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 Origination Date

Date the Lender funds a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date

Multifamily Trading Desk

Team that quotes interest rate pricing for a Mortgage Loan and can be contacted at (888) 889-1118.

P

Plan Number

Number identifying the applicable loan characteristics for any Mortgage Loan that accrues interest at a variable rate at any time during the loan term.

Prepayment Premium

When a Mortgage Loan prepayment is made, amount required to be paid by the Borrower in addition to the principal amount being prepaid and accrued interest per the related Loan Documents.

Synonyms

- Prepayment Premiums

Pricing Memo

Applicable DUS Pricing Memo or non-DUS Pricing Memo communicating pricing for various products and features to Lenders.

Synonyms

- Pricing Memos

R



Rate Lock

Agreement between the Lender and the Investor containing the terms of the Lender-Arranged Sale or Multifamily Trading Desk trade of the Mortgage Loan and the MBS terms and conditions relating to the underlying MBS, if applicable, which may be documented via a recorded telephone conversation.

Synonyms

- Rate Locks

S

Servicing Fee

Fee a Servicer receives for collecting payments, managing operational procedures, and assuming Lender's portion of credit risk for a Mortgage Loan.

Synonyms

- Servicing Fees

U

UPB

Unpaid Principal Balance