Fannie Mae®

Multifamily Selling and Servicing Guide

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Chapter 10 Adjustable Rate Mortgage (ARM) Loans

Section 1001 Description

☑ Requirements

An ARM Loan has

- an interest rate that is adjusted periodically based on a specified
  - Index, and
  - interest period,
- payments that are adjusted to repay the UPB in substantially equal payments over the remaining amortization period, and
- a term of 5, 7, or 10 years, depending on the plan.

Product Description	
Plan Number	• 04931 - ARM 5/5 Loan: 30-Day Average SOFR • 04933 - ARM 7/6 Loan: 30-Day Average SOFR
Terms	• ARM 5/5 Loan: Initial 5-year term with an optional second 5-year adjustable rate term • ARM 7/6 Loan: 7-year term
Index	• ARM 5/5 Loan: 30-Day Average SOFR • ARM 7/6 Loan: 30-Day Average SOFR
Interest Rate Floor	Must not be less than the combined • Guaranty Fee, plus • Servicing Fee, plus • Investor spread.
Lockout Period	• 1 st Loan Year; and • 1 st Loan Year of the second 5-year adjustable rate term (typically the 6th Loan Year), when an ARM 5/5 Loan renews for an additional 5-year adjustable rate term.

Product Description	
Prepayment Availability	May be voluntarily prepaid after eachlockout period with a 1% Prepayment Premium, but no Prepayment Premium is due • during the "open period" (typically the last 3 months of the loan term), • when an ARM Loan converts to a fixed rate Mortgage Loan, or • when an ARM 5/5 Loan renews for an additional 5-year adjustable rate term.
Rate Change Date	Date the interest rate changes based on changes in the selected Index.
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 an ARM 5/5 Loan, - Guaranty Fee, plus - Servicing Fee, plus - 5%. • For an ARM 7/6 Loan, - Guaranty Fee, plus - Servicing Fee, plus - 6%.
Index Look-Back Period	1 Business Daybefore the Rate Change Date.
Interest Accrual Method	Actual/360
Interest Rate Cap	Not required; interest rate adjustments are subject to an embedded cap.

Product Description	
Conversion to Fixed Rate	Permitted, with no prepayment penalty and minimal re-underwriting, after the lockout period and before the "open period" (typically the last day of the 4th month preceding the end of the Mortgage Loan term).
Investors	• For an ARM 5/5 Loan, - the Multifamily Trading Desk, or - Third Party MBS Investor. • For an ARM 7/6 Loan, the Multifamily Trading Desk.
Rate Lock	• Maximum 45-day Commitment. • No rate change may occur before Delivery.
ARM 5/5 Loan Options at Maturity	Before the end of the initial 5-year term for an ARM 5/5 Loan, Borrower must elect to: • convert the ARM Loan to a fixed rate; • fully repay the ARM Loan; or • renew the adjustable rate term for an additional 5-year term.

Section 1002 Underwriting

☑ Requirements

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 204: Refinance Risk Analysis.

For an ARM 5/5 Loan, you must:

- instruct the PCA Consultant to determine all required Property capital improvements over a 12-year period (i.e., the initial 5-year adjustable rate term, plus the optional 5-year adjustable rate term, plus 2 years); and
- calculate the Replacement Reserve based on the required capital improvements during the first 5-year adjustable rate term, plus 2 years.

Section 1003 Prepayment Terms

1003.01 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 lockout period.	Borrower may not make a voluntary prepayment during the lockout period.
ARM Loan is accelerated during the prepayment lockout period.	Borrower owes a 5% Prepayment Premium.
Borrower makes a voluntary prepayment after the lockout period and before the "open period" (typically 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.
Borrower makes any prepayment during the "open period" (typically 3 months before the Maturity Date).	Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment at any time due to casualty or condemnation.	Borrower does not owe a Prepayment Premium.

1003.02 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[2]	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.

2If an ARM 5/5 Loan is renewed for the optional 5-year adjustable rate term, the Borrower may not voluntarily prepay during the lockout period at the beginning of the second 5-year adjustable rate term (typically the 6th Loan Year). If the ARM 5/5 Loan is accelerated during the 6th Loan Year, the Borrower owes a 5% Prepayment Premium.

Section 1004 ARM 5/5 Loan Optional 5-Year Adjustable Rate Term Renewal Eligibility

Requirements

A performing ARM 5/5 Loan is eligible to renew the adjustable rate term for an additional 5-year adjustable rate term if:

- Fannie Mae offers the ARM 5/5 Loan.
- The Loan Documents require a second lockout period at the beginning of

the second 5-year adjustable rate term (typically the 6th Loan Year), prohibiting any voluntary prepayment.

- You comply with the Loan Documents, including calculating an updated:
  - DSCR, using the current NCF and the Maximum Lifetime Interest Rate Limit, at least equal to the DSCR per Form 4660 based on the same Tier as the initial 5-year adjustable rate term; and
  - LTV less than or equal to the LTV per Form 4660 based on the same Tier as the initial 5-year adjustable rate term.

Glossary

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30-Day Average SOFR	Compounded average of SOFR over a specified interest period of 30 days.

A

Adjustable Rate Mortgage Loan	Mortgage Loan with an interest rate that periodically adjusts based on an Index per the Note or Loan Documents. **Synonyms** • ARM Loan • Adjustable Rate Mortgage Loans • ARM Loans

B

Borrower	Person who is the obligor per the Note. **Synonyms** • Borrowers • Borrower's

C

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

D

Debt Service Coverage Ratio	On an annual basis or any specified period, the ratio of Net Cash Flow to the total of: principal, interest, and required Mezzanine Financing or Hard Pay Preferred Equity payments. **Synonyms** • DSCR
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 Maes satisfaction. **Synonyms** • Deliver • Delivered • Deliveries

F

Form 4660	Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the 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	Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.

Guaranty Fee	Fee retained by Fannie Mae for credit enhancing a Mortgage Loan or assuming credit risk on a Mortgage Loan, and which may be expressed as a percentage. **Synonyms** • Guaranty Fees
Guide	Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise. **Synonyms** • DUS Guide

I

Improvements	Buildings, structures, improvements, and alterations, including the multifamily housing dwellings, now or hereafter constructed or placed on the Property, including all fixtures (as defined in the UCC). **Synonyms** • Improvements'
Index	Basis for determining an ARM Loan Gross Note Rate or entering a Streamlined Treasury Lock on a fixed rate Mortgage Loan, including any required alternative index deemed necessary by Fannie Mae because the prior Index: • is no longer widely accepted; or • was replaced as the index for similar financial instruments.

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
Investor	MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan. **Synonyms** • Investors • Investor's
Investor Spread	Required spread above the Index (excluding the Guaranty Fee and Servicing Fee) charged by the Investor purchasing the: • Mortgage Loan; or • MBS Mortgage Loan.

L

Loan Documents	All Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan. **Synonyms** • Loan Document • Mortgage Loan Document • Mortgage Loan Documents

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. **Synonyms** • Loan Years
Loan-to-Value Ratio	Ratio of the actual aggregate UPB of the Mortgage Loan, plus any Pre-Existing Mortgage Loans, plus any Hard Pay Preferred Equity, plus any Mezzanine Financing, to the value of the Property, expressed as a percentage. **Synonyms** • LTV • LTV Ratio

M

Maturity Date	Date all Mortgage Loan amounts become fully due and payable per the Loan Documents. **Synonyms** • Maturity Dates
MBS	Mortgage-Backed Security
MBS Investor	For MBS Mortgage Loans, either a Third Party MBS Investor for Lender-Arranged Sales, or the Multifamily Trading Desk.

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
Multifamily Trading Desk	Team that: • purchases and trades Cash Mortgage Loans and MBS Mortgage Loans for Fannie Mae's own account; and • can be contacted at (888) 889-1118.

N

Net Cash Flow	At underwriting or for any specified period, the amount calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • NCF

P

PCA Consultant	Individual or firm conducting a PCA and preparing a PCA Report. **Synonyms** • PCA Consultant's
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. **Synonyms** • Plan Numbers

Prepayment Premium	For a Mortgage Loan prepayment, amount the Borrower must pay in addition to the prepaid principal and accrued interest per the Loan Documents. **Synonyms** • Prepayment Premiums
Pricing and Underwriting Tier	Tier 1, Tier 2, Tier 3, or Tier 4 per the Multifamily Underwriting Standards (Form 4660). **Synonyms** • Tier
Property	Multifamily residential real estate securing the Mortgage Loan, including the • fee simple or Leasehold interest, • Improvements, and • personal property (per the Uniform Commercial Code). **Synonyms** • Properties • Property's
Property Condition Assessment	Assessment of the Property's physical condition and historical operation. **Synonyms** • PCA • PNA • Physical Needs Assessment • PCAs

R

Rate Lock	Agreement between you 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
Replacement Reserve	Custodial Account the Borrower funds during the Mortgage Loan term for Replacements. **Synonyms** • Replacement Reserves
Replacements	Capital item replacements and major maintenance needs identified by the Property Condition Assessment or otherwise required. **Synonyms** • Replacement

S

Secured Overnight Financing Rate	For any Business Day, the Secured Overnight Financing Rate as published by the Federal Reserve Bank of New York, or any successor administrator, on the Federal Reserve Website. **Synonyms** • SOFR
Servicing Fee	Fee a Servicer receives for collecting payments, managing operational procedures, and assuming your portion of credit risk for a Mortgage Loan, and which may be expressed as a percentage. **Synonyms** • Servicing Fees

T

Third Party MBS Investor	MBS Investor for an MBS Mortgage Loan that is not the Multifamily Trading Desk. **Synonyms** • Third Party MBS Investor's

U

UPB	Unpaid Principal Balance **Synonyms** • UPBs