



Fannie Mae®

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
 - 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	<ul style="list-style-type: none">• 04931 - ARM 5/5 Loan: 30-Day Average SOFR• 04933 - ARM 7/6 Loan: 30-Day Average SOFR
Terms	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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 <ul style="list-style-type: none">• Guaranty Fee, plus• Servicing Fee, plus• Investor spread.
Lockout Period	<ul style="list-style-type: none">• 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	<p>May be voluntarily prepaid after each lockout period with a 1% Prepayment Premium, but no Prepayment Premium is due</p> <ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • For an ARM 5/5 Loan, <ul style="list-style-type: none"> - Guaranty Fee, plus - Servicing Fee, plus - 5%. • For an ARM 7/6 Loan, <ul style="list-style-type: none"> - Guaranty Fee, plus - Servicing Fee, plus - 6%.
Index Look-Back Period	1 Business Day before 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	<ul style="list-style-type: none">• For an ARM 5/5 Loan,<ul style="list-style-type: none">- the Multifamily Trading Desk, or- Third Party MBS Investor.• For an ARM 7/6 Loan, the Multifamily Trading Desk.
Rate Lock	<ul style="list-style-type: none">• 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: <ul style="list-style-type: none">• 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 1102

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 203: 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 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 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.



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 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 1104 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.

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

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

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, and which may be expressed as a percentage.

Synonyms

- Guaranty Fees

I

Index

Basis for determining the Gross Note Rate of an ARM Loan, including any required alternative index that may be determined necessary by Fannie Mae because the Index is no longer widely accepted or has been 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



Investor MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan.

Synonyms

- Investors

L

Loan Documents All documents evidencing, securing, or guaranteeing the debt obligation executed for a Mortgage Loan and approved by Fannie Mae.

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

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



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

P

PCA Consultant Individual or firm conducting a PCA and preparing a PCA Report.

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 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

Property Multifamily residential property securing the Mortgage Loan and including the land (or Leasehold interest in land), Improvements, and personal property (as defined in the Uniform Commercial Code).

Synonyms

- Properties
- Property's

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 established by the Lender and funded by deposits from the Borrower over the term of the Mortgage Loan to fund the replacement of capital items at the Property.

Synonyms

- Replacement Reserves

S

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