



Multifamily Selling and Servicing Guide

Effective as of August 1, 2019

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Section 1202 Underwriting

Requirements

You must calculate the minimum underwritten DSCR based on an amortizing debt service constant.

Minimum Underwritten DSCR	
Variable Underwriting Rate	<p>Equals:</p> <ul style="list-style-type: none">• the applicable 1-month LIBOR Index or 3-month LIBOR Index at the time of Rate Lock; plus• the Mortgage Loan margin equal to<ul style="list-style-type: none">- the Investors required spread over the applicable 1-month LIBOR Index or 3-month LIBOR Index, plus- the Guaranty Fee, plus- the Servicing Fee; plus• a 3% interest rate spread; plus• a cap cost factor (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate of this Chapter for the cap cost factor calculation) if the Borrower does not purchase an Interest Rate Cap for the full term of the SARM Loan at loan origination.
Debt Service Constant	<p>Equals</p> <ul style="list-style-type: none">• the Variable Underwriting Rate, plus• the applicable amortization factor based on the Variable Underwriting Rate.

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

- calculated applying the applicable minimum DSCR per Form 4660 for both the
 - Variable Underwriting Rate for the adjustable interest rate, and
 - Fixed Rate Test described in the Form 4660;



- calculated using the applicable maximum LTV Ratio per Form 4660;
- calculated using the minimum Cap Strike Rate, if set by Fannie Mae; 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](#).

Guidance

The amortization used to underwrite the SARM Loan is different than the actual SARM Loan amortization schedule, which uses fixed monthly principal installments.



Glossary

B

Borrower Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

C

Cap Strike Rate Maximum specified Index interest rate that will trigger a payment obligation by the Interest Rate Cap provider.

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.

M

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

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

V

Variable Underwriting Rate Rate for Structured ARM Mortgage Loans per [Part III, Chapter 12: Structured Adjustable Rate Mortgage \(SARM\) Loans, Section 1202: Underwriting](#).