



Fannie Mae®

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# Multifamily Selling and Servicing Guide

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## TABLE OF CONTENTS

---

Part III Section 1203 Actual Amortization Calculation .....	3
GLOSSARY .....	6



## Section 1203 Actual Amortization Calculation

### Requirements

You must amortize SARM Loans on a straight line basis over the total loan term. The amount of amortization due during the Mortgage Loan term is the same amount that would be due, in total, for a comparable fixed rate loan. When you calculate the amortization due, you must consider

- the loan term,
- amortization schedule,
- any interest only period, and
- the Pricing and Underwriting Tier.

To calculate SARM Loan amortization, you must use fixed rate pricing with an interest rate equal to:

- an indicative MBS investor yield; plus
- the lower of:
  - the lowest Guaranty Fee and Servicing Fee in the Pricing Memo for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term and Pricing and Underwriting Tier as the SARM Loan; or
  - the Guaranty Fee and Servicing Fee quoted by the Deal Team for a fixed rate Mortgage Loan when you request pricing for the SARM Loan.

### Operating Procedures

1. You must obtain quotes for a hypothetical actual/360 fixed rate Mortgage Loan.

For example, for a SARM Loan with a 10-year loan term...	
Guaranty Fee quoted by Fannie Mae	0.95%
Servicing Fee quoted by Fannie Mae	+ 0.55%
US Treasury and Investor spread (quoted by Fannie Mae or Third Party MBS Investor)	+ 4.00%
Gross Note Rate	= 5.50%

You must use the same 5.50% annual interest rate to calculate the



amortization for the 10-year SARM Loan.

2. You must calculate the fixed monthly principal installment required over the term of the SARM Loan following these steps:

**Step 1:** Using an actual/360 interest accrual method, calculate the aggregate amortization amount that would be collected over the term of the SARM Loan based on the:

- principal amount of the SARM Loan;
- lowest applicable interest rate for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term, and Pricing and Underwriting Tier as the SARM Loan, rounded to 3 decimal places; and
- required amortization period.

**Step 2:** Divide the aggregate amortization amount determined in Step 1 by the number of amortizing monthly installments in the SARM Loan term. For example, the number of monthly installments would be:

- 60, for a 5-year amortizing Mortgage Loan;
- 84, for a 7-year amortizing Mortgage Loan;
- 120, for a 10-year amortizing Mortgage Loan; or
- 108, for a 10-year Mortgage Loan with 1 year of interest-only.

The result is the fixed monthly principal installment.

**Example:** Assume a 10-year Tier 2 fixed rate Mortgage Loan with a

- 5.500% per annum Gross Note Rate,
- 360-month amortization period, and
- \$25 million loan amount.

Calculate the fixed monthly principal installment as follows:

**Step 1:** Calculate the aggregate principal amortization amount that would be collected over the term of the Mortgage Loan if it had a fixed rate.

Estimate the month and year in which the first full monthly loan payment would be made, based on an actual/360 amortization schedule. The total amount of amortization depends on both

- the number of days (i.e., 28, 29, 30, or 31) in the month prior to each loan payment date, and
- when the next leap year occurs.



Assuming

- a SARM Loan amount of \$25 million,
- a 30-year amortization term,
- a debt service constant calculated using the Gross Note Rate of 5.500% (6.8134680% debt service constant),
- an actual/360 interest accrual method,
- an issue date of December 1, 2018, and
- a first loan payment date of January 1, 2019,

the aggregate amount allocated to principal over 120 payments is \$4,114,494.17.

**Step 2:** Calculate the fixed monthly principal installment by dividing the aggregate amortization amount by the total number of amortizing payments during the SARM Loan term.

Calculate the fixed monthly principal installment...	
Aggregate amortization	\$4,114,494.17
Divided by total payments	120
Equals fixed monthly principal	\$34,287.45



# Glossary

## G

**Gross Note Rate** Interest rate stated in the Loan Documents.

**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

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

**Synonyms**

- Investors
- Investor's

## 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

## P



Pricing and Underwriting Tier

Tier 1, Tier 2, Tier 3, or Tier 4 per the Multifamily Underwriting Standards (Form 4660).

**Synonyms**

- Tier

Pricing Memo

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

**Synonyms**

- Pricing Memos

## 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