



Multifamily Selling and Servicing Guide

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1205.01 Replacement Interest Rate Cap

Requirements

If the initial Interest Rate Cap expires before the Maturity Date of the SARM Loan, you must ensure that:

- The Borrower purchases a replacement Interest Rate Cap to cover the remaining term.
- The notional amount of any replacement cap equals the outstanding principal balance of the SARM Loan when the replacement cap becomes effective, and continues throughout the term of the replacement cap.
- The term of the replacement cap equals the remaining term of the SARM Loan, or a shorter term if previously approved and documented in the Loan Documents.
- The Cap Strike Rate of the replacement cap is equal to or less than the Cap Strike Rate at Mortgage Loan origination (see [Part III, Chapter 12: Structured Adjustable Rate Mortgage \(SARM\) Loans, Section 1205.02: Determining the Cap Strike Rate](#)).

Guidance

The Borrower may purchase an Interest Rate Cap in advance if

- the initial cap goes into effect on the Mortgage Loan Origination Date, and
- the replacement cap goes into effect on the Maturity Date of the initial cap.



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.

I

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

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

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 Origination Date

Date the Lender funds a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date