



Multifamily Selling and Servicing Guide

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1205.02 Determining the Cap Strike Rate

Requirements

You must determine the maximum Cap Strike Rate. The sum of the following must not be greater than the rate (calculated using an underwritten debt service constant that includes amortization) that produces the minimum required Underwritten DSCR for the Pricing and Underwriting Tier of the SARM Loan:

- Cap Strike Rate; plus
- Guaranty Fee; plus
- Servicing Fee; plus
- investor spread; plus
- the higher of 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) or actual Interest Rate Cap escrow deposits, if an interest rate cap for the full term of the Mortgage Loan is not purchased at closing.

You must ensure that the Cap Strike Rate at which the Borrower purchases any replacement cap is not greater than the Cap Strike Rate at which the initial cap was purchased.

Guidance

If the Borrower purchases an Interest Rate Cap with a Cap Strike Rate less than the maximum rate, then any replacement cap may still be purchased at a Cap Strike Rate that is less than or equal to the maximum rate.

You may calculate the initial Cap Strike Rate based on an interest-only underwritten debt service constant if the approved interest-only term is greater than or equal to the initial Interest Rate Cap term.



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.

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

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

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

P

Pricing and Underwriting Tier

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

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

V

Variable Underwriting Rate

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