



# Multifamily Selling and Servicing Guide

Effective as of August 1, 2019

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### 1205.03 Including the Cap Cost Factor in the Variable Underwriting Rate

#### Requirements

When determining the Variable Underwriting Rate used to calculate the minimum required Underwritten DSCR, you must include a cap cost factor based on the term of the SARM Loan and the term of the initial Interest Rate Cap.

You do not need to include a cap cost factor if the term of the initial Interest Rate Cap equals the term of the SARM Loan.

You must ensure that the cap cost factor equals

- the estimated cost of the replacement cap (when the term of the initial cap expires), divided by
- the term of the initial cap.

#### Operating Procedures

For example, to calculate the cap cost factor assuming a 5-year Interest Rate Cap and 7-year SARM Loan term:

- You must include an annual cap cost factor in the Variable Underwriting Rate.
- If the SARM Loan term is 7 years and an initial cap is purchased for a 5-year term, the cap cost factor equals the estimated cost of a replacement cap divided by 5 (the number of years of the initial interest rate term).
- The replacement cap has a 2-year term and a Cap Strike Rate equal to that of the initial cap.
- If a 2-year Interest Rate Cap at the initial Cap Strike Rate costs 20 basis points, you must divide 20 by 5, then add the result (4 basis points) to the Variable Underwriting Rate.



# Glossary

## 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

## V

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