



# Multifamily Selling and Servicing Guide

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## 1205.05 Interest Rate Cap Contract Documentation and Delivery

### Operating Procedures

#### 1. Cap Provider Payment

The Interest Rate Cap provider must make a payment directly to you if, on the 1st day of the month corresponding with the monthly loan payment dates of a LIBOR-based SARM,

- the 1-Month Index for a 1-month SARM Loan exceeds the Cap Strike Rate for a monthly settlement, or
- the 3-Month Index for a 3-month SARM Loan exceeds the Cap Strike Rate for a quarterly settlement.

Only disburse a provider payment to the Borrower if

- there is no Mortgage Loan default, and
- you have received all payments due under the Note for that month.

#### 2. Timing

The Borrower must accept a bid for the initial Interest Rate Cap in writing from a Fannie Mae approved provider before you Deliver the SARM.

You must give Fannie Mae copies of all cap-related documentation when you deliver the SARM Loan.

#### 3. Purchase Price

The Borrower must pay the entire purchase price for an Interest Rate Cap to the provider when the Interest Rate Cap Agreement is issued.

#### 4. Pledge to Fannie Mae

The Borrower must execute [Form 6442](#) to pledge its interest in the Interest Rate Cap and any reserve to Fannie Mae, as additional collateral for the SARM Loan.



# 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

**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

**Interest Rate Cap Agreement** Contract setting forth the terms and conditions of an Interest Rate Cap, Hedge, or Swap.

**Synonyms**

- Interest Rate Hedge Agreement
- Interest Rate Swap Agreement

## 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

## N

Note

Current instrument evidencing a Mortgage Loan obligation, including [Form 6010 series](#), any other note approved by Fannie Mae, and all applicable addenda, schedules, and exhibits.

### **Synonyms**

- Notes