Fannie Mae®

Multifamily Selling and Servicing Guide

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Chapter 12 Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans

Section 1201 Description

☑ Requirements

A Hybrid ARM Loan combines the features of fixed rate and ARM Loans, and has a total term of 30 years, consisting of

- an initial term when interest accrues at a fixed rate, followed by
- the remaining term, during which interest accrues at an adjustable rate.

Product Description	
Plan Number	04934 - 30-Day Average SOFR
Terms	Permitted combinations of fixed rate and adjustable rate terms: • 5-year fixed rate term, followed by automatic conversion to a 25-year adjustable rate term; • 7-year fixed rate term, followed by automatic conversion to a 23-year adjustable rate term; or • 10-year fixed rate term, followed by automatic conversion to a 20-year adjustable rate term.
Maximum Loan Amount	Per Part III, Chapter 9: Small Mortgage Loans, Section 901.01: Description.
Ineligible Products	• Cooperative Property • Military Housing Property • MAH Property • Near Stabilized Property • Seniors Housing Property • Student Housing Property • Dedicated Student Housing Property • Supplemental Mortgage Loan

Product Description	
Prepayment Premium Options	Either • standard yield maintenance, or • graduated Prepayment Premium.
Prepayment Premium Period End Date / Yield Maintenance Period End Date	Final day of the last Loan Year during the fixed rate term per the applicable Prepayment Premium option.
Conversion to Adjustable Rate	Automatic conversion from a fixed rate to an adjustable rate on the 1st day of the 1st Loan Year following the applicable fixed rate term.
Index During Adjustable Rate Term	30-Day Average SOFR
Interest Rate Floor	Must not be less than the combined • Guaranty Fee, plus • Servicing Fee, plus • Investor spread (per Form 4660).
Gross Note Rate During Adjustable Rate Term	Equals the • Index, plus • Guaranty Fee, plus • Servicing Fee, plus • Investor spread (per Form 4660).
Rate Change Date	Date the interest rate changes based on changes in the selected Index.
Interest Rate Change Frequency During Adjustable Rate Term	Every 6 months, based on the Index in effect as of the Rate Change Date.
Frequency of Payment Change During Adjustable Rate Term	P&I payments are recalculated for every Rate Change Date.
Maximum Interest Rate Change	Plus or minus 1% of the then-current interest rate both • at conversion from fixed rate to adjustable rate, and • during the adjustable rate term.

Product Description	
Maximum Interest Rate During Adjustable Rate Term	5% over the fixed rate.
Index Look-Back Period	1 Business Day before the Rate Change Date.
Interest Accrual Method	Must be actual/360.
Payments	Calculated using a 30/360 interest accrual method.
Interest Only	Must not exceed the fixed rate term.

You must rate lock the Hybrid ARM Loan with the Multifamily Trading Desk (MBS or cash).

You must underwrite the Hybrid ARM Loan based on the applicable fixed rate terms.

Section 1202 Interest Rate Conversion Date

Requirements

The conversion of the interest rate from fixed to adjustable is mandatory and automatic. After Fannie Mae confirms the Commitment for the Hybrid ARM Loan, it may not be modified.

After the Hybrid ARM Conversion Date, interest will accrue at the applicable adjustable rate, up to and including the Maturity Date.

Operating Procedures

As an example of the conversion to adjustable rate date calculation in Part III, Chapter 12: Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans, Section 1201: Description:

- If the effective date of the Loan Documents is July 1, 2019, and the fixed rate term is 7 years, then the Hybrid ARM Conversion Date would be July 1, 2026.
- If the fixed rate term is 7 years and the effective date is any other date in July 2019, then the Hybrid ARM Conversion Date would be August 1, 2026.

Section 1203 Prepayment Terms

☑ Requirements

You must select from 3 Prepayment Premium options.

PREPAYMENT Option 1 5% Declining Prepayment Premium Schedule			
Loan Year	5-Year Term	7-Year Term	10-Year Term
1	5%	5%	5%
2	4%	5%	5%
3	3%	4%	4%
4	2%	4%	4%
5	1%	3%	3%
6	N/A	2%	3%
7	N/A	1%	2%
8	N/A	N/A	2%
9	N/A	N/A	1%
10	N/A	N/A	1%

PREPAYMENT Option 2 3% Declining Prepayment Premium Schedule			
Loan Year	5-Year Term	7-Year Term	10-Year Term
1	3%	3%	3%
2	2%	3%	3%
3	1%	2%	3%
4	1%	2%	2%
5	1%	1%	2%
6	N/A	1%	2%
7	N/A	1%	1%
8	N/A	N/A	1%
9	N/A	N/A	1%
10	N/A	N/A	1%

PREPAYMENT Option 3 Standard Yield Maintenance			
Loan Year	5-Year Term	7-Year Term	10-Year Term
Yield Maintenance Ends	Last day of the 5th Loan Year	Last day of the 7th Loan Year	Last day of the 10th Loan Year

If the Borrower makes a prepayment due to casualty or condemnation, no Prepayment Premium is due. For all other prepayments, the Borrower must pay a Prepayment Premium if the prepayment occurs before the Prepayment Premium Period End Date.

The Borrower may prepay the Hybrid ARM Loan without any Prepayment Premium:

- on the last day of the fixed rate term; or
- at any time during the adjustable rate term.

The Prepayment Premium is shared with Fannie Mae per Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing using the applicable Prepayment Premium schedule for a fixed rate Mortgage Loan.

Section 1204 Monthly Principal and Interest Payments

1204.01 During the Fixed Rate Term

☑ Requirements

The monthly installments of P&I must equal the amount needed to repay the UPB

- in substantially equal payments over the amortization term at the fixed rate, and
- based on a 30/360 interest accrual method.

To calculate loan payments at the end of an interest-only period, refer to the Loan Documents.

1204.02 On the Hybrid ARM Loan Conversion Date

☑ Requirements

On the Hybrid ARM Conversion Date, the Borrower must make the last regularly scheduled payment of P&I for the fixed rate term.

1204.03 During the Adjustable Rate Term

Requirements

The Borrower must make payments of P&I based on changes to the Index:

- on the 1st day of the month immediately following the Hybrid ARM Conversion Date; and
- on the 1st day of each month thereafter, until the Maturity Date.

On the Rate Change Date, a new P&I installment will be calculated to be in effect on the 1st day of the following month.

Monthly installments of P&I, due on each payment date during the adjustable rate term, must equal the amount needed to repay the UPB

- in substantially equal payments over the amortization term at the variable rate,
- based on a 30/360 interest accrual method.

Operating Procedures

To determine the amount of each monthly installment allocated to principal, subtract the amount allocated to interest following each rate change.

For example:

A 5-year Hybrid ARM Loan with the following terms:	
Loan Amount	$2,500,000
Fixed Rate	5.25%
Fixed Rate Term	60 months
Amortization Term	360 months
Fixed Rate Period	Standard fixed payment amortization
Monthly Payment	$13,805.09
UPB at End of Month 60	$2,303,737.20

Upon conversion to adjustable rate in month 61, amortization is recalculated using the following terms:	
Loan Amount	$2,303,737.20
Variable Rate	4.25%

Upon conversion to adjustable rate in month 61, amortization is recalculated using the following terms:	
Amortization Term	300 months
Monthly Payment	$12,480.22
Interest Payment	(4.25% / 360 months) x 30 days x UPB
Principal Payment	Monthly Payment Interest Payment
UPB at End of Month 66	$2,277,579.64

At rate change in month 67, amortization is recalculated using the following terms:	
Loan Amount	$2,277,579.64
Variable Rate	4.50%
Amortization Term	294 months
Monthly Payment	$12,799.71
Interest Payment	(4.50% / 360 months) x 30 days x UPB
Principal Payment	Monthly Payment Interest Payment
UPB at End of Month 72	$2,251,786.15

Glossary

3

30-Day Average SOFR	Compounded average of SOFR over a specified interest period of 30 days.

A

Adjustable Rate Mortgage Loan	Mortgage Loan with an interest rate that periodically adjusts based on an Index per the Note or Loan Documents. **Synonyms** • ARM Loan • Adjustable Rate Mortgage Loans • ARM Loans

B

Borrower	Person who is the obligor per the Note. **Synonyms** • Borrowers • Borrower's
Business Day	Any day other than a • Saturday, • Sunday, • day when Fannie Mae is closed, • day when the Federal Reserve Bank of New York is closed, or • for any MBS and required remittance withdrawal, day when the Federal Reserve Bank is closed in the district where any of the MBS funds are held. **Synonyms** • Business Days

C

Commitment	Contractual agreement between you and Fannie Mae where Fannie Mae agrees to buy a Mortgage Loan at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and you agree to Deliver that Mortgage Loan. **Synonyms** • Committed • Commitments
Cooperative Property	Multifamily residential property owned by a Cooperative Organization. **Synonyms** • Co-op • Cooperative

D

Dedicated Student Housing Property	Multifamily rental Property in which 80% or more of the units are leased to undergraduate or graduate students. **Synonyms** • Dedicated Student Housing

F

Form 4660	Multifamily Underwriting Standards identifying Pre-Review Mortgage Loans and containing the underwriting requirements (e.g., debt service coverage ratio, loan to value ratio, interest only, underwriting floors, etc.) for all Mortgage Loans. **Synonyms** • Multifamily Underwriting Standards

G

Gross Note Rate	Mortgage Loan interest rate stated in the Loan Documents.

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Guaranty	Payment Guaranty, Non-Recourse Guaranty, or other guaranty by a Guarantor for the Mortgage Loan.
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

H

Hybrid ARM Loan	Mortgage Loan with a total term of 30 years, comprised of an initial term when interest accrues at a fixed rate, and which automatically converts to a term where interest accrues at an adjustable rate. **Synonyms** • Hybrid ARM Loans
Hybrid ARM Loan Conversion Date	Date when the UPB of a Hybrid ARM Loan automatically converts from accruing at a fixed interest rate to accruing at an adjustable interest rate. **Synonyms** • Hybrid ARM Conversion Date

I

Index	Basis for determining an ARM Loan Gross Note Rate or entering a Streamlined Treasury Lock on a fixed rate Mortgage Loan, including any required alternative index deemed necessary by Fannie Mae because the prior Index: • is no longer widely accepted; or • was replaced as the index for similar financial instruments.

Investor	MBS Investor for an MBS Mortgage Loan, or Fannie Mae for a Cash Mortgage Loan. **Synonyms** • Investors • Investor's
Investor Spread	Required spread above the Index (excluding the Guaranty Fee and Servicing Fee) charged by the Investor purchasing the: • Mortgage Loan; or • MBS Mortgage Loan.

L

Loan Documents	All Fannie Mae-approved documents evidencing, securing, or guaranteeing the Mortgage Loan. **Synonyms** • Loan Document • Mortgage Loan Document • Mortgage Loan Documents
Loan Year	Period beginning on the date of the Note and ending on the last day of the month that is 12 full months after the date of the Note, and each successive 12-month period thereafter. **Synonyms** • Loan Years

M

Maturity Date	Date all Mortgage Loan amounts become fully due and payable per the Loan Documents. **Synonyms** • Maturity Dates

MBS	Mortgage-Backed Security
Military Housing Property	Multifamily rental Property in which 40% or more of the units are occupied by individuals serving in, or employed by, the United States military. **Synonyms** • Military Housing
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
Multifamily Affordable Housing Property	Property that: • complies with Part III, Chapter 7: Multifamily Affordable Housing Properties, Section 702: MAH Property Eligibility; and • is underwritten per Part III, Chapter 7: Multifamily Affordable Housing Properties. **Synonyms** • MAH • Multifamily Affordable Housing • MAH Property
Multifamily Trading Desk	Team that: • purchases and trades Cash Mortgage Loans and MBS Mortgage Loans for Fannie Mae's own account; and • can be contacted at (888) 889-1118.

N

Near Stabilized Property	Newly constructed or recently rehabilitated Property, with all construction or rehabilitation complete, which is expected to achieve Stabilized Residential Occupancy and the applicable required Underwritten Debt Service Coverage Ratio within 120 days after the Mortgage Loan Origination Date.

Note	Instrument evidencing a Mortgage Loan obligation, including
	• Form 6010 series,
	• any other Fannie Mae-approved note, and
	• all applicable
	  - addenda,
	  - schedules, and
	  - exhibits.
	
	Synonyms
	• Notes

P

P&I	Principal and interest
Plan Number	Number identifying the applicable loan characteristics for any Mortgage Loan that accrues interest at a variable rate at any time during the loan term. **Synonyms** • Plan Numbers
Prepayment Premium	For a Mortgage Loan prepayment, amount the Borrower must pay in addition to the prepaid principal and accrued interest per the Loan Documents. **Synonyms** • Prepayment Premiums
Prepayment Premium Option	Applicable Form 6104 series schedule to the Loan Agreement.

Prepayment Premium Period End Date	Last date when a Borrower owes a Prepayment Premium for a voluntary Mortgage Loan prepayment.
Principal	Person who owns or controls, in the aggregate, directly or indirectly (together with that Person's Immediate Family Members, if an individual), specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors. **Synonyms** • Principals
Property	Multifamily residential real estate securing the Mortgage Loan, including the • fee simple or Leasehold interest, • Improvements, and • personal property (per the Uniform Commercial Code). **Synonyms** • Properties • Property's

R

Rate Lock	Agreement between you and the Investor containing the terms of the Lender-Arranged Sale or Multifamily Trading Desk trade of the Mortgage Loan and the MBS terms and conditions relating to the underlying MBS, if applicable, which may be documented via a recorded telephone conversation. **Synonyms** • Rate Locks

S

Secured Overnight Financing Rate	For any Business Day, the Secured Overnight Financing Rate as published by the Federal Reserve Bank of New York, or any successor administrator, on the Federal Reserve Website. **Synonyms** • SOFR
Seniors Housing Property	Multifamily residential rental property with any combination of Independent Living, Assisted Living, Alzheimer's/Dementia Care, or Skilled Nursing units. **Synonyms** • Seniors Housing • Seniors Housing Properties
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
Small Mortgage Loan	Mortgage Loan with an original loan amount less than or equal to $9 million. **Synonyms** • Small Mortgage Loans
Student Housing Property	A multifamily residential rental property in which 40% or more, but less than 80%, of the units are leased to either undergraduate or graduate students. **Synonyms** • Student Housing

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Supplemental Mortgage Loan	Mortgage Loan purchased by Fannie Mae that is subordinated to, and has a Mortgage Loan Origination Date after, the Senior Mortgage Loan that is also owned by Fannie Mae. **Synonyms** • Supplemental Mortgage Loans

U

UPB	Unpaid Principal Balance **Synonyms** • UPBs

Y

Yield Maintenance Period End Date	Last day on which a Borrower owes yield maintenance for a voluntary Mortgage Loan prepayment. **Synonyms** • Yield Maintenance Period End Dates