



Guide Update 24-10: SARM Underwriting and Escrows

Effective: 10/25/24
Retired: 10/25/25

Summary of Changes

HIGHLIGHTS

Effective for Mortgage Loans Committed as of October 25, 2024, due to high interest rates and volatility, Structured Adjustable Rate Mortgage (SARM) Loan criteria were updated.

Primary Changes

Updated:

- Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans to:
 - revise the underwriting criteria for a SARM Loan, including using the Maximum Note Rate instead of the Variable Underwriting Rate to determine the
 - minimum Underwritten DSCR, and
 - maximum SARM Loan amount; and
 - require an Interest Rate Cap reserve equal to at least 110% of the current replacement cap cost if the Interest Rate Cap term expires before the SARM Loan Maturity Date;
- Part III, Chapter 14: Supplemental Mortgage Loans to calculate the loan amount for an adjustable rate Supplemental Mortgage Loan based on the combined debt service amounts using the Maximum Note Rate for the Pre-Existing Mortgage Loan;
- Part III, Chapter 19: Bond Transactions and Credit Enhancement Mortgage Loans to use:
 - the Maximum Note Rate instead of the Variable Underwriting Rate for determining amortization; and
 - a cap cost factor to determine the Maximum Note Rate;
- Part V, Chapter 4: Asset Management: Loan Document Administration for Interest Rate Hedge requirements; and



- Glossary terms to
 - add Maximum Note Rate, and
 - delete Variable Underwriting Rate.

Questions

Please contact Jarrodd Davis at (202) 752-0849, or jarrodd_davis@fanniemae.com, with any questions.