



# Guide Update 24-10: SARM Underwriting and Escrows

Effective: 10/25/24

## 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**

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