Multifamily Selling and Servicing Guide

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Summary of Changes

HIGHLIGHTS
Effective Month XX, 2021, the Guide was updated to • remove LIBOR references from Part III, and • add a new ARM 5/5 Optional 5-Year Adjustable Rate Term Renewal Section to Part IV.

Primary Changes

- Removed all references to the LIBOR index in Part III since LIBOR-based Mortgage Loans are no longer eligible for Delivery per Guide Update 20-07: Secured Overnight Financing Rate (SOFR). References were removed from:
  - Part III, Chapter 11: Adjustable Rate Mortgage (ARM) Loans;
  - Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans; and
  - Part III, Chapter 13: Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans.
- For Part IV, Chapter 7:
  - Renamed the Chapter
    - — from Variable Rate to Fixed Rate Conversions,
    - — to Variable Rate Conversions and Renewals.
  - Added Section:
    - — 704: ARM 5/5 Optional 5-Year Adjustable Rate Term Renewal;
    - — 704.01: Eligibility; and
    - — 704.02: Underwriting.
  - Moved the previously published ARM 5/5 Loan Prepayment Terms Section
    - — from Part III, Chapter 11: Adjustable Rate Mortgage (ARM) Loans, Section 1104.02: Prepayment Terms,
    - — to Part IV, Chapter 7: Variable Rate Conversions and Renewals, Section 704.03: Prepayment Terms.

Questions

Please contact the Fannie Mae Deal Team with any questions.

Chapter 11 Adjustable Rate Mortgage (ARM) Loans

Section 1101 Description

Requirements

An ARM Loan has

- an interest rate that is adjusted periodically based on a specified
  - Index, and
  - interest period,
- payments that are adjusted to repay the UPB in substantially equal payments over the remaining amortization period, and
- a term of 5, 7, or 10 years, depending on the plan.

Product Description	
Plan Number	• 04931 - ARM 5/5 Loan: 30-Day Average SOFR • 04933 - ARM 7/6 Loan: 30-Day Average SOFR • ~~02255 - ARM 7/6 Loan: 1-month LIBOR~~
Terms	• ARM 5/5 Loan: Initial 5-year term with an optional second 5-year adjustable rate term • ARM 7/6 Loan: 7-year term
Index	• ARM 5/5 Loan: 30-Day Average SOFR • ARM 7/6 Loan: 30-Day Average SOFR • ~~30-Day Average SOFR; or~~ ~~1-month LIBOR, if the Mortgage Loan is~~ • ~~Committed by September 30, 2020, and~~ ~~Delivered by December 31, 2020.~~

Interest Rate Floor	Must not be less than the combined • Guaranty Fee, plus • Servicing Fee, plus • Investor spread.
Lockout Period	~~1st Loan Year~~ • 1st Loan Year; and • 1st Loan Year of the second 5-year adjustable rate term (typically the 6th Loan Year), when an ARM 5/5 Loan renews for an additional 5-year adjustable rate term.
Prepayment Availability	May be voluntarily prepaid after ~~the~~each lockout period with a 1% Prepayment Premium, but no Prepayment Premium is due • during the "open period" (typically the last 3 months of the loan term), • when an ARM Loan converts to a fixed rate Mortgage Loan, or • when an ARM 5/5 Loan renews for an additional 5-year adjustable rate term.
Rate Change Date	Date the interest rate changes based on changes in the selected Index.
Interest Rate Change Frequency	Monthly
Maximum Interest Rate Change	Plus or minus 1% of the then-current interest rate.
Maximum Lifetime Interest Rate Limit	• For an ARM 5/5 Loan, - Guaranty Fee, plus - Servicing Fee, plus - 5%. • For an ARM 7/6 Loan, - Guaranty Fee, plus - Servicing Fee, plus - 6%.

Index Look-Back Period	• ~~For a SOFR-indexed ARM Loan, 1 Business Day before the Rate Change Date.~~ ~~For a LIBOR-indexed ARM Loan, 15 days before the Rate Change Date.~~ 1 Business Day before the Rate Change Date.
Interest Accrual Method	Actual/360
Interest Rate Cap	Not required; interest rate adjustments are subject to an embedded cap.
Conversion to Fixed Rate	Permitted, with no prepayment penalty and minimal re-underwriting, after the lockout period and before the "open period" (typically the last day of the 4th month preceding the end of the Mortgage Loan term).
Investors	• For an ARM 5/5 Loan, - the Multifamily Trading Desk, or - Third Party MBS Investor. • For an ARM 7/6 Loan, the Multifamily Trading Desk.
Rate Lock	• Maximum 45-day Commitment. • No rate change may occur before Delivery.
ARM 5/5 Loan Options at Maturity	Before the end of the initial 5-year term for an ARM 5/5 Loan, Borrower must elect to: • convert the ARM Loan to a fixed rate; • fully repay the ARM Loan; or • renew the adjustable rate term for an additional 5-year term.

Section 1102 Underwriting

Requirements

You must ensure that the maximum ARM Loan amount is the lowest of the amount:

- calculated applying the applicable minimum DSCR per Form 4660 for both the
  - maximum lifetime interest rate limit, and
  - Fixed Rate Test per Form 4660;
- calculated using the applicable maximum LTV per Form 4660; and
- you determined is appropriate.

You must use the Fixed Rate Test interest rate to determine the UPB for the refinance risk analysis per Part II, Chapter 2: Valuation and Income, Section 203: Refinance Risk Analysis.

For an ARM 5/5 Loan, you must:

- instruct the PCA Consultant to determine all required Property capital improvements over a 12-year period (i.e., the initial 5-year adjustable rate term, plus the optional 5-year adjustable rate term, plus 2 years); and
- calculate the Replacement Reserve based on the required capital improvements during the first 5-year adjustable rate term, plus 2 years.

Section 1103 Prepayment Terms

1103.01 Generally

☑ Requirements

The following table describes various situations and the applicable prepayment provisions; see Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing for Prepayment Premium calculations and sharing between you and Fannie Mae.

Situation	Prepayment Provisions
Borrower attempts to make a voluntary prepayment during the lockout period.	Borrower may not make a voluntary prepayment during the lockout period.
ARM Loan is accelerated during the prepayment lockout period.	Borrower owes a 5% Prepayment Premium.

Borrower makes a voluntary prepayment after the lockout period and before the "open period" (typically 3 months prior to the Maturity Date) for any reason other than a casualty or condemnation.	Borrower owes a Prepayment Premium.
ARM Loan converts to a fixed rate Mortgage Loan.	Borrower does not owe a Prepayment Premium.
Borrower makes aany prepayment during the "open period" (typically 3 months before the Maturity Date).	Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment at any time due to casualty or condemnation.	Borrower does not owe a Prepayment Premium.

1103.02 1% Prepayment Premium Schedule

Requirements

After the 1st Loan Year, the Prepayment Premium will be 1% for any reason other than a casualty or condemnation.

Loan Year	5-Year Term	7-Year Term	10-Year Term
1 (Locked Out)[1]	N/A	N/A	N/A
2	1%	1%	1%
3	1%	1%	1%
4	1%	1%	1%
5	1%	1%	1%
6[2]	N/A	1%	1%
7	N/A	1%	1%
8	N/A	N/A	1%
9	N/A	N/A	1%
10	N/A	N/A	1%

Loan Year	5-Year Term	7-Year Term	10-Year Term
1 During the lockout period, the Borrower may not voluntarily prepay the ARM Loan. If the ARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium. 2 If an ARM 5/5 Loan is renewed for the optional 5-year adjustable rate term, the Borrower may not voluntarily prepay during the lockout period at the beginning of the second 5-year adjustable rate term (typically the 6th Loan Year). If the ARM 5/5 Loan is accelerated during the 6th Loan Year, the Borrower owes a 5% Prepayment Premium.			

1104 Section ARM 5/5 Loan Optional 5-Year Adjustable Rate Term Renewal Eligibility

~~1104.01 Eligibility~~

Requirements

A performing ARM 5/5 Loan is eligible to renew the adjustable rate term for an additional 5-year adjustable rate term if:

- Fannie Mae offers the ARM 5/5 Loan.
- The Loan Documents require a second lockout period at the beginning of the second 5-year adjustable rate term (typically the 6th Loan Year), prohibiting any voluntary prepayment.
- You comply with the Loan Documents, including calculating an updated:
  - DSCR, using the current NCF and the Maximum Lifetime Interest Rate Limit, at least equal to the DSCR per Form 4660 based on the same Tier as the initial 5-year adjustable rate term; and
  - LTV less than or equal to the LTV per Form 4660 based on the same Tier as the initial 5-year adjustable rate term.

~~1104.02 Prepayment Terms~~ (Deleted entire Section - See bottom of this document)

Chapter 12 Structured Adjustable Rate Mortgage (SARM) Loans

Section 1201 Description

Requirements

A SARM Loan is an ARM Loan with an external Interest Rate Cap.

Product Description	
Plan Numbers	• ~~04932 - 30-Day Average SOFR 03488 - 1-month LIBOR 03487 - 3-month LIBOR~~ 04932 - 30-Day Average SOFR
Term	5 to 10 years
Funding Type	MBS or Cash
Index	~~Either~~30-Day Average SOFR ~~30-Day Average SOFR, or 1- or 3-month LIBOR, if the Mortgage Loan is~~ • ~~Committed by September 30, 2020, and Delivered by December 31, 2020.~~
Rate Change Date	Date the interest rate changes based on changes in the selected Index.
Index Look-Back Period	1 Business Day before the Rate Change Date.
Interest Rate Floor	Must not be less than the combined • Guaranty Fee, plus • Servicing Fee, plus • Investor spread.
Lockout Period	1st Loan Year
Prepayment Availability	After the lockout period, may be voluntarily prepaid per the selected prepayment option.
Minimum Loan Amount	$25 million

Interest Rate	Equals the • Index, plus • Guaranty Fee, plus • Servicing Fee, plus • Investor spread.
Interest Rate Adjustment	• Occurs every month. • ~~month for SOFR-indexed Mortgage Loans, 1 or 3 months depending on the LIBOR Index.~~ Except for the Interest Rate Floor, has no limit on number or size of rate changes.
Interest Rate Cap	Required for the entire term of the SARM Loan.
Interest Accrual Method	Actual/360
Amortization	Amortizes with fixed monthly principal installments based on a calculated actual/360 fixed rate payment.
Conversion to Fixed Rate	Permitted, with no prepayment penalty and minimal re-underwriting, after the lockout period and before the "open period" (typically the last day of the 4th month preceding the end of the Mortgage Loan term).
Investors	• Third Party MBS Investor, or • Multifamily Trading Desk.
Rate Lock	• Maximum 45-day Commitment. • No rate change may occur before Delivery.

Section 1202 Underwriting

Requirements

You must calculate the minimum underwritten DSCR based on an amortizing debt service constant.

Minimum Underwritten DSCR

Variable Underwriting Rate	Equals: • the ~~applicable 1 or 3-month LIBOR Index, or~~ 30-Day Average SOFR Index at the time of Rate Lock; plus • the Mortgage Loan margin equal to - the Investor's required spread over the applicable Index, plus - the Guaranty Fee, plus - the Servicing Fee; plus • a 3% interest rate spread; plus • a cap cost factor (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate of this Chapter for the cap cost factor calculation) if the Borrower does not purchase an Interest Rate Cap for the full term of the SARM Loan at loan origination.
Debt Service Constant	Equals • the Variable Underwriting Rate, plus • the applicable amortization factor based on the Variable Underwriting Rate.

You must ensure that the maximum SARM Loan amount is the lowest of the amount:

- calculated applying the applicable minimum DSCR per Form 4660 for both the
  - Variable Underwriting Rate for the adjustable interest rate, and
  - Fixed Rate Test described in the Form 4660;
- calculated using the applicable maximum LTV Ratio per Form 4660;
- calculated using the minimum Cap Strike Rate, if set by Fannie Mae; and
- you determined is appropriate.

You must use the Fixed Rate Test interest rate to determine the UPB for the refinance risk analysis per Part II, Chapter 2: Valuation and Income, Section 203: Refinance Risk Analysis.

Guidance

The amortization used to underwrite the SARM Loan is different than the actual SARM Loan amortization schedule, which uses fixed monthly principal installments.

Section 1203 Actual Amortization Calculation

Requirements

You must amortize SARM Loans on a straight line basis over the total loan term. The amount of amortization due during the Mortgage Loan term is the same amount that would be due, in total, for a comparable fixed rate loan. When you calculate the amortization due, you must consider

- the loan term,
- amortization schedule,
- any interest only period, and
- the Pricing and Underwriting Tier.

To calculate SARM Loan amortization, you must use fixed rate pricing with an interest rate equal to:

- an indicative MBS investor yield; plus
- the lower of:
  - the lowest Guaranty Fee and Servicing Fee in the Pricing Memo for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term and Pricing and Underwriting Tier as the SARM Loan; or
  - the Guaranty Fee and Servicing Fee quoted by the Deal Team for a fixed rate Mortgage Loan when you request pricing for the SARM Loan.

Operating Procedures

1. You must obtain quotes for a hypothetical actual/360 fixed rate Mortgage Loan.

For example, for a SARM Loan with a 10-year loan term...	
Guaranty Fee quoted by Fannie Mae	0.95%

For example, for a SARM Loan with a 10-year loan term...	
Servicing Fee quoted by Fannie Mae	+ 0.55%
US Treasury and Investor spread (quoted by Fannie Mae or Third Party MBS Investor)	+ 4.00%
Gross Note Rate	= 5.50%

You must use the same 5.50% annual interest rate to calculate the amortization for the 10-year SARM Loan.

2. You must calculate the fixed monthly principal installment required over the term of the SARM Loan following these steps:

Step 1: Using an actual/360 interest accrual method, calculate the aggregate amortization amount that would be collected over the term of the SARM Loan based on the:

- principal amount of the SARM Loan;
- lowest applicable interest rate for a hypothetical actual/360 fixed rate Mortgage Loan with the same loan term, and Pricing and Underwriting Tier as the SARM Loan, rounded to 3 decimal places; and
- required amortization period.

Step 2: Divide the aggregate amortization amount determined in Step 1 by the number of amortizing monthly installments in the SARM Loan term. For example, the number of monthly installments would be:

- 60, for a 5-year amortizing Mortgage Loan;
- 84, for a 7-year amortizing Mortgage Loan;
- 120, for a 10-year amortizing Mortgage Loan; or
- 108, for a 10-year Mortgage Loan with 1 year of interest-only.

The result is the fixed monthly principal installment.

Example: Assume a 10-year Tier 2 fixed rate Mortgage Loan with a

- 5.500% per annum Gross Note Rate,
- 360-month amortization period, and
- $25 million loan amount.

Calculate the fixed monthly principal installment as follows:

Step 1: Calculate the aggregate principal amortization amount that would be collected over the term of the Mortgage Loan if it had a fixed rate.

Estimate the month and year in which the first full monthly loan payment would be made, based on an actual/360 amortization schedule. The total amount of amortization depends on both

- the number of days (i.e., 28, 29, 30, or 31) in the month prior to each loan payment date, and
- when the next leap year occurs.

Assuming

- a SARM Loan amount of $25 million,
- a 30-year amortization term,
- a debt service constant calculated using the Gross Note Rate of 5.500% (6.8134680% debt service constant),
- an actual/360 interest accrual method,
- an issue date of December 1, 2018, and
- a first loan payment date of January 1, 2019,

the aggregate amount allocated to principal over 120 payments is $4,114,494.17.

Step 2: Calculate the fixed monthly principal installment by dividing the aggregate amortization amount by the total number of amortizing payments during the SARM Loan term.

Calculate the fixed monthly principal installment...	
Aggregate amortization	$4,114,494.17
Divided by total payments	120
Equals fixed monthly principal	$34,287.45

Section 1204 Prepayment Terms

1204.01 Generally

Requirements

The following table describes various situations and the applicable prepayment provisions; see Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing for Prepayment Premium calculations and sharing between you and Fannie Mae.

Situation	Prepayment Provisions
Borrower attempts to make a voluntary prepayment during the lockout period.	Borrower may not make a voluntary prepayment during the lockout period.
SARM Loan is accelerated during the prepayment lockout period.	Borrower owes a 5% Prepayment Premium.
Borrower makes a prepayment sometime after the lockout period and before the "open period" (typically 3 months before Maturity Date) for any reason other than a casualty or condemnation.	Borrower owes a Prepayment Premium.
SARM Loan converts to a fixed rate Mortgage Loan.	Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment during the "open period" (typically 3 months before the Maturity Date).	Borrower does not owe a Prepayment Premium.
Borrower makes a prepayment due to casualty or condemnation.	Borrower does not owe a Prepayment Premium.

1204.02 Prepayment Option 1 – Declining Prepayment Premium Schedule

☑ Requirements

For a voluntary prepayment after the stated lockout period using Prepayment Option 1, you must use Schedule 4 of the Multifamily Loan and Security Agreement - Prepayment Premium Schedule (Graduated Prepayment Premium – ARM, SARM) (Form 6104.10) with the applicable Prepayment Premium percentage listed in this table.

Loan Year	5-Year Term	7-Year Term	10-Year Term
1 (Locked Out)[1]	N/A	N/A	N/A

Loan Year	5-Year Term	7-Year Term	10-Year Term
2	4%	4%	4%
3	3%	3%	3%
4	2%	2%	2%
5	1%	1%	1%
6	N/A	1%	1%
7	N/A	1%	1%
8	N/A	N/A	1%
9	N/A	N/A	1%
10	N/A	N/A	1%

1 During the lockout period, the Borrower may not voluntarily prepay the SARM Loan. If the SARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.

1204.03 Prepayment Option 2 - 1% Prepayment Premium Schedule

☑ Requirements

For a voluntary prepayment after the stated lockout period using Prepayment Option 2, you must use Schedule 4 to Multifamily Loan and Security Agreement (Prepayment Premium Schedule-1% Prepayment Premium – ARM, SARM) (Form 6104.11) to document the required 1% Prepayment Premium.

Loan Year	5-Year Term	7-Year Term	10-Year Term
1 (Locked Out)[1]	N/A	N/A	N/A
2	1%	1%	1%
3	1%	1%	1%
4	1%	1%	1%
5	1%	1%	1%
6	N/A	1%	1%

Loan Year	5-Year Term	7-Year Term	10-Year Term
7	N/A	1%	1%
8	N/A	N/A	1%
9	N/A	N/A	1%
10	N/A	N/A	1%
1 During the lockout period, the Borrower may not voluntarily prepay the SARM Loan. If the SARM Loan is accelerated during the lockout period, the Borrower owes a 5% Prepayment Premium.			

Section 1205 Interest Rate Caps

☑ Requirements

Description	
Interest Rate Cap	Borrower must purchase a third-party Interest Rate Cap.
Interest Rate Cap Provider	Borrower must only obtain bids from providers approved by Fannie Mae as listed on www.fanniemae.com/multifamily.
Interest Rate Cap Documentation	Must be on forms that are acceptable to Fannie Mae.
Minimum Interest Rate Cap Term	5 years. The Borrower must keep an Interest Rate Cap Agreement in place continually until the earlier of the • effective date of any permitted conversion to a fixed rate Mortgage Loan, or • Maturity Date of the SARM Loan.
Replacement Cap	You must ensure that the Borrower purchases a replacement cap if the Interest Rate Cap term expires before the conversion or Maturity Date of the SARM Loan.
Cap Cost Factor	Equals the cost of a replacement cap divided by the initial cap term.

Description	
Interest Rate Cap Reserves	Borrower must fund a cash reserve sufficient to purchase a replacement cap if the Interest Rate Cap term expires before the Maturity Date of the SARM Loan.
Cap Contract Process and Documentation	You must deliver all cap-related documentation to Fannie Mae, including the • Interest Rate Cap Agreement, and • Interest Rate Cap Reserve and Security Agreement (Form 6442). Fannie Mae will engage outside counsel at your expense to review all cap-related documentation.
Initial Interest Rate Cap Notional Amount	Notional amount of the initial Interest Rate Cap throughout its term must equal the original principal amount of the SARM Loan.

Guidance

You may require the Borrower to:

- pay Fannie Mae's costs, including legal fees; and
- fund a reserve for the payment of these expenses.

1205.01 Replacement Interest Rate Cap

Requirements

If the initial Interest Rate Cap expires before the Maturity Date of the SARM Loan, you must ensure that:

- The Borrower purchases a replacement Interest Rate Cap to cover the remaining term.
- The notional amount of any replacement cap equals the outstanding principal balance of the SARM Loan when the replacement cap becomes effective, and continues throughout the term of the replacement cap.
- The term of the replacement cap equals the remaining term of the

SARM Loan, or a shorter term if previously approved and documented in the Loan Documents.

- The Cap Strike Rate of the replacement cap is equal to or less than the Cap Strike Rate at Mortgage Loan origination (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.02: Determining the Cap Strike Rate).

Guidance

The Borrower may purchase an Interest Rate Cap in advance if

- the initial cap goes into effect on the Mortgage Loan Origination Date, and
- the replacement cap goes into effect on the Maturity Date of the initial cap.

1205.02 Determining the Cap Strike Rate

Requirements

You must determine the maximum Cap Strike Rate. The sum of the following must not be greater than the rate (calculated using an underwritten debt service constant that includes amortization) that produces the minimum required Underwritten DSCR for the Pricing and Underwriting Tier of the SARM Loan:

- Cap Strike Rate; plus
- Guaranty Fee; plus
- Servicing Fee; plus
- Investor spread; plus
- the higher of a cap cost factor (see Part III, Chapter 12: Structured Adjustable Rate Mortgage (SARM) Loans, Section 1205.03: Including the Cap Cost Factor in the Variable Underwriting Rate) or actual Interest Rate Cap escrow deposits, if an interest rate cap for the full term of the Mortgage Loan is not purchased at closing.

You must ensure that the Cap Strike Rate at which the Borrower purchases any replacement cap is not greater than the Cap Strike Rate at which the initial cap was purchased.

Guidance

If the Borrower purchases an Interest Rate Cap with a Cap Strike Rate less than the maximum rate, then any replacement cap may still be purchased at a Cap Strike Rate that is less than or equal to the maximum rate.

You may calculate the initial Cap Strike Rate based on an interest-only underwritten debt service constant if the approved interest-only term is greater than or equal to the initial Interest Rate Cap term.

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.

1205.04 Establishing Interest Rate Cap Reserves

Requirements

You must ensure that the Borrower has a cash reserve to purchase a replacement Interest Rate Cap if the term of the initial Interest Rate Cap is less than the term of the SARM Loan.

If the initial Interest Rate Cap Agreement has a term of 5 years, the Borrower must fund the cash reserve with each monthly Mortgage Loan payment during the term.

If the initial cap has a term of more than 5 years, the Borrower's monthly reserve payments for a replacement cap must start no later than 5 years before the existing cap expires.

You must calculate the monthly reserve payments for the first 12-month period using the estimated cost of the replacement Interest Rate Cap.

Guidance

Assuming that a 5-year Interest Rate Cap is initially purchased for a SARM Loan with a 10-year term, if

- the initial cap is purchased with a 6.50% Cap Strike Rate, and
- the cost of a replacement 5-year cap with a 6.50% Cap Strike Rate is $250,000,
- then the monthly reserve for the first 12-month period would be $4,166.67 ($250,000 cost ÷ 60 months).

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~~date, the ~~LIBOR~~30-Day Average SOFR ~~or~~Index exceeds the ~~SOFR~~Cap Strike Rate~~-indexed SARM Loan,~~ for a monthly settlement.

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

- ~~the 30-Day Average SOFR~~ Index for a ~~30-Day Average SOFR SARM Loan exceeds the Cap Strike Rate for a monthly 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 Loan.

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.

Chapter 13 Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans

Section 1301 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	~~Either~~04934 - 30-Day Average SOFR ~~04934 - 30-Day Average SOFR, or~~ ~~04891 - 6-month LIBOR.~~
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
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	~~Either~~30-Day Average SOFR ~~30-Day Average SOFR, or 6-month LIBOR, if the Mortgage Loan is~~ ~~Committed by September 30, 2020, and~~ ~~Delivered by December 31, 2020.~~
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.
Maximum Interest Rate During Adjustable Rate Term	5% over the fixed rate.
Index Look-Back Period	~~For:~~1 Business Day before the Rate Change Date. ~~SOFR-indexed Mortgage Loans, 1 Business Day before the Rate Change Date; or~~ ~~LIBOR-indexed Mortgage Loans, 45 days 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 1302 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 13: Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans, Section 1301: 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 1303 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%

PREPAYMENT Option 1 – 5% Declining Prepayment Premium Schedule			
Loan Year	5-Year Term	7-Year Term	10-Year Term
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 1304 Monthly Principal and Interest Payments

1304.01 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.

1304.02 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.

1304.03 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%
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

Chapter 7 Variable Rate ~~to Fixed Rate~~ Conversions and Renewals

Section 701 Conversion Process

Requirements

For a Mortgage Loan originated using Fannie Mae form Loan Documents that automatically converts to a variable rate or a fixed rate per the Loan Documents, you must comply with the Loan Documents.

For a Mortgage Loan originated using non-Fannie Mae form Loan Documents with a conversion option or other interest rate change (automatic or otherwise), you must

- comply with the Loan Documents, and
- contact Multifamily Acquisitions.

You must use the following table to determine the conversion process.

For conversion of...	You must...
An ARM Loan or a SARM Loan to a fixed rate	Comply with this Chapter.
A variable rate Mortgage Loan in a Structured Transaction to a fixed rate	Comply with Part IV, Chapter 2: Rate Lock and Committing.
A Hybrid ARM Loan to the adjustable rate term	Comply with Part III, Chapter 13: Hybrid Adjustable Rate Mortgage (Hybrid ARM) Loans.
A variable rate Credit Enhancement Mortgage Loan to a fixed rate	Comply with Part XIV of the DUS Guide.

Guidance

For information about the ARM Loan and SARM Loan conversion process, refer to Frequently Asked Questions (FAQs) Exercising the Fixed Rate Conversion Option for an Adjustable Rate Mortgage Loan (ARM Loan) or a Structured ARM Loan (SARM Loan).

Section 702 ARM Loan and SARM Loan Conversions

702.01 Governing Documents

Requirements

For interest rate conversions, you must comply with the following documents and order of priority:

- Interest Rate Conversion Agreement;
- Loan Documents; and
- this Chapter.

702.02 Minimum Conversion Debt Service Ratio

Requirements

To convert...	You must...
A Mortgage Loan to a fixed rate	Confirm the Minimum Conversion Debt Service Ratio (per the Interest Rate Conversion Agreement) is met.
A Supplemental Mortgage Loan to a fixed rate	Confirm the Minimum Conversion Debt Service Ratio is met using the sum of - the current annual combined debt service of all Pre-Existing Mortgage Loans (using the maximum interest rate for any variable rate Pre-Existing Mortgage Loan), plus - the annual debt service of the converted fixed rate Supplemental Mortgage Loan.

702.03 Conversion Criteria

Requirements

You must comply with the following table.

Criteria	You must...
DUS Gateway	Enter delegated and non-delegated conversions in DUS Gateway.

Criteria	You must...
Effective Date	Ensure the conversion is effective on a payment date (i.e., the 1st day of the month).
Conversion Timeline	- For an ARM Loan, exercise the conversion ▪ after the 1st Loan Year, and ▪ up to, and including, the last day of the 5th Loan Year. - For a SARM Loan, exercise the conversion ▪ after the 1st Loan Year, and ▪ up to, and including, the 1st day of the 3rd month before the Maturity Date.
Loan Term	Convert to a fixed rate Mortgage Loan with a loan term - greater than or equal to 7 years, and - less than or equal to 10 years.
Underwriting	Underwrite the conversion as follows: - Base actual DSCR on the trailing 12-month period from the most recent supportable actual operations per the Borrower's Property financial statements. - Ensure actual DSCR meets the minimum required DSCR for a fixed rate Mortgage Loan at the same Pricing and Underwriting Tier as the original ARM Loan or SARM Loan. - Comply with the Loan Documentation Requirements (Form 6000).

702.04 Guaranty Fee and Servicing Fee

☑ Requirements

You must calculate the Gross Note Rate using the current Guaranty Fee and Servicing Fee for a fixed rate Mortgage Loan in effect at Rate Lock.

702.05 Interest-Only

Requirements

If an interest-only ARM Loan or SARM Loan converts during the interest-only period and the new loan term is less than the original term, you must ensure

- the interest-only period does not carry over, and
- fixed rate amortization begins immediately.

Guidance

If an interest-only ARM Loan or SARM Loan converts during the interest-only period and the new loan term is greater than or equal to the original term, you may allow the remaining interest-only period to carry over to the fixed rate Mortgage Loan.

702.06 Fixed Rate Amortization

Requirements

You must comply with the following table.

For ARM Loans and SARM Loans with...	The fixed rate amortization term will be...
Full-term interest-only	360 months.
- Partial interest-only or amortization, - a fixed rate term greater than or equal to the original ARM Loan or SARM Loan term, and - a most recent Property condition rating of 1 or 2	360 months.

For ARM Loans and SARM Loans with…	The fixed rate amortization term will be…
Other characteristics	equal to - the original ARM Loan or SARM Loan amortization term (in months), minus - the number of monthly payments (P&I or interest-only) since the Mortgage Loan Origination Date.

702.07 Fixed Rate Debt Service Payments

Operating Procedures

To calculate the fixed rate monthly P&I payments, you must:

1. Determine the amount required to repay the Mortgage Loan UPB.
2. Divide the amount into equal monthly installments.
3. Include interest accrued at the fixed rate over the amortization term per Part IV, Chapter 7: Variable Rate to Fixed Rate Conversions, Section 702.06: Fixed Rate Amortization.
4. Use a 30/360 interest accrual method, regardless of whether the Mortgage Loan uses a 30/360 or an Actual/360 interest accrual method.

702.08 Fixed Rate MBS Trade Premium

Requirements

For premiums on fixed rate MBS trades, you must comply with the Pricing Memo.

702.09 New Property Condition Assessment (PCA)

Requirements

You must obtain a new PCA (or a Streamlined PCA per Part III, Chapter 9: Small Mortgage Loans, Section 907.03: PCA) if

- the conversion extends the term of the ARM Loan or SARM Loan, and
- the Property is not an MAH Property.

You must obtain the PCA by the earlier of

- the final Loan Year of the ARM Loan or SARM Loan if it had not been converted, or
- Loan Year 10.

Section 703 Commitment and Delivery

703.01 Rate Lock and Commitment

Operating Procedures

When you receive the Borrower's conversion notice for an ARM Loan or a SARM Loan:

- Perform your standard due diligence before obtaining a Rate Lock.
- Ensure the quoted fixed rate is less than or equal to the maximum fixed rate used to determine Net Cash Flow.
- Rate Lock with the Borrower for the quoted fixed rate by the 10th day of the month before the Conversion Date.
- Submit your Commitment request in C&D.
- Obtain a confirmed Commitment for the fixed rate Mortgage Loan.

703.02 Conversion Delivery

703.02A Deliver Loan Document Amendments

Operating Procedures

Step 1: Execute and deliver the Rate Conversion Amendment.

- If you have a Limited Power of Attorney with Fannie Mae (per Part V, Chapter 4: Asset Management: Loan Document Administration, Section 403: Execution of Documents by Servicer – Limited Power of Attorney), you must
  - execute the Rate Conversion Amendment as Fannie Mae's attorney-in-fact, and

  - include the executed document in the Mortgage Loan Delivery Package.

- If you do not have a Limited Power of Attorney, you must
  - obtain the Borrower's signature,
  - deliver the Rate Conversion Amendment to Multifamily Acquisitions who will execute and retain the original with the Mortgage Loan Delivery Package, and
  - retain the returned, executed copy in your Servicing File.

Step 2: Determine if state law requires a Security Instrument amendment for a change in the Mortgage Loan Maturity Date.

If an amendment is needed, you must ensure

- your counsel sends it to Multifamily Acquisitions for execution before closing the conversion, and
- the returned, executed amendment is recorded in the appropriate land records.

703.02B Deliver Mortgage Loan Delivery Package

Operating Procedures

Step 1: Prepare the Mortgage Loan Delivery Package, including all documents listed inForm 6000 as "Required upon Conversion" for an ARM Loan or a SARM Loan.

Step 2: Deliver the Mortgage Loan Delivery Package to Multifamily Certification and Custody

- within 10 days after receiving the confirmed Commitment, and
- by the Delivery deadline.

Step 3: Deliver the data and documents perPart IV, Chapter 4: Delivery.

Step 4: UploadForm 4662 and relevant underwriting due diligence to DUS DocWay.

703.03 Conversion Activities

Operating Procedures

You must coordinate with Fannie Mae to ensure the following conversion activities occur.

You must...	Fannie Mae will...
- Issue a new fixed rate MBS Pool after completing the conversion process. - Deliver the converted fixed rate Mortgage Loan to Fannie Mae under the new confirmed Commitment. - Ensure the MBS trade has a Book-Entry Date no later than: ▪ the 17th day of the month of the Conversion Effective Date for an MBS ARM Loan or SARM Loan; or ▪ the 10th day of the month of the Conversion Effective Date for a Cash ARM Loan or SARM Loan.	- Issue the new fixed rate MBS. - For a variable rate Cash Mortgage Loan, place it into the MBS trade assignment account. - Transfer the MBS to the MBS Investor per your instruction on either the 10th or the 17th day of the month (as applicable) of the Conversion Effective Date. - Deposit the funds from the MBS trade into your applicable P&I Custodial Account.

703.04 Pay Off

Requirements

You must confirm, report, and remit funds to pay off the MBS ARM Loan or SARM Loan.

Operating Procedures

1. Request MBS payoff amount verification by submitting your calculation in the Fannie Mae Payoff Calculator per Part V, Chapter 2: Reporting and Remitting, Section 210: Full Prepayments.
2. Send the payoff amount to Fannie Mae per the standard monthly remittance process in Part V, Chapter 2: Reporting and Remitting.
3. For an MBS ARM Loan or SARM Loan,
    - report a $0 balance for the MBS on the 1st or 2nd day of the month in which the Conversion Effective Date occurs, and
    - Fannie Mae will draft the funds due to the MBS Investor.

Section 704 ARM 5/5 Optional 5-Year Adjustable Rate Term Renewal

704.01 Eligibility

Operating Procedures

To renew an ARM 5/5 Loan for a second 5-year adjustable rate term:

Timing before the initial Maturity Date	You must...
At least 180 days	- Notify Multifamily Asset Management that the ARM 5/5 Loan will be renewed for the second 5-year adjustable rate term. - Confirm the ARM 5/5 Loan complies with Part III, Chapter 11: Adjustable Rate Mortgage (ARM) Loans, Section 1104.01: Eligibility. - Include preliminary DSCR and LTV calculations. - Estimate the starting interest rate for the second 5-year adjustable rate term, including the new Investor spread.
At least 30 days	Provide Multifamily Asset Management with: - an updated ARM 5/5 Loan eligibility confirmation; - current DSCR and LTV calculations; and - an estimate of the starting interest rate for the second 5-year adjustable rate term, including the new Investor spread.

704.02 Underwriting

Requirements

If an ARM 5/5 Loan is renewed for an additional 5 years, you must:

- Use the same Guaranty Fee and Servicing Fee as the first 5-year adjustable rate term.
- Adjust the Investor spread for the second 5-year adjustable rate term based on current market conditions.

- Adjust the monthly Replacement Reserve deposit to include required capital improvements during Loan Years 6 through 10, plus 2 additional years, per the original PCA Report.
- Not charge a Prepayment Premium.

704.03 Prepayment Terms

Requirements

If an ARM 5/5 Loan is renewed for an additional 5 years:

- no voluntary prepayment will be permitted during the 6th Loan Year(i.e., the 1st Loan Year of the second 5-year adjustable rate term); and
- the ARM Loan may be prepaid after the 6th Loan Year with a 1% Prepayment Premium, but no Prepayment Premium is due
  - during the last 3 months of the loan term, or
  - if the ARM Loan converts to a fixed rate Mortgage Loan.

The following table describes various situations and the applicable prepayment provisions for the second 5-year adjustable rate term for an ARM 5/5 Loan; see Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing for Prepayment Premium calculations and sharing between you and Fannie Mae.

Situation	Prepayment Provisions
ARM 5/5 Loan is renewed for a second 5-year adjustable rate term.	Borrower does not owe a Prepayment Premium.
Borrower attempts to make a voluntary prepayment during the 6th Loan Year.	Borrower may not make a voluntary prepayment during the 6th Loan Year(i.e., a voluntary prepayment is locked out).
ARM 5/5 Loan converts to a fixed rate Mortgage Loan after the 6th Loan Year.	Borrower does not owe a Prepayment Premium.

Situation	Prepayment Provisions
Borrower makes a voluntary prepayment after the 6th Loan Year and before the 3 months prior to the extended Maturity Date for any reason other than a casualty or condemnation.	Borrower owes a Prepayment Premium.

~~1104.02 Prepayment Terms~~

~~Requirements~~

~~If the Borrower renews the adjustable rate term for an additional 5 years, a second lockout period is required at the beginning of the second 5-year adjustable rate term (typically the 6th Loan Year), during which no prepayment is permitted.~~

~~The following table describes various situations and the applicable prepayment provisions for the second 5-year adjustable rate term for an ARM 5/5 Loan; see Part V, Chapter 2: Reporting and Remitting, Section 213: Prepayment Premium Sharing for Prepayment Premium calculations and sharing between you and Fannie Mae.~~

~~Situation~~	~~Prepayment Provisions~~
~~ARM 5/5 Loan is renewed for a second 5-year adjustable rate term.~~	~~Borrower does not owe a Prepayment Premium.~~
~~Borrower attempts to make a voluntary prepayment during the lockout period at the start of the second 5-year adjustable rate term.~~	~~Borrower may not make a voluntary prepayment during the lockout period (typically the 6th Loan Year).~~
~~ARM 5/5 Loan converts to a fixed rate Mortgage Loan after the lockout period.~~	~~Borrower does not owe a Prepayment Premium.~~

~~Situation~~	~~Prepayment Provisions~~
~~Borrower makes a prepayment after the lockout period at the beginning of the second 5-year adjustable rate term and before the open period (typically 3 months prior to the extended Maturity Date) for any reason other than a casualty or condemnation.~~	~~Borrower owes a Prepayment Premium.~~