

## Primer on MBS/Multifamily Structured ARM (SARM)

Fannie Mae's MBS/SARM product offers an attractive adjustable-rate option that can be used to fund multifamily loans delivered through the DUS<sup>®</sup> product line of \$25 million or more. MBS/SARM loans have an adjustable interest rate that is equal to 1-month or 3-month LIBOR plus a mortgage margin.

### Investor Benefits

- **Uncapped adjustable-rate security:** MBS/SARM loans have no embedded periodic or lifetime caps in the loan structure.
- **Greater predictability:** For amortizing loans, principal is paid in equal monthly installments over the life of the loan. Interest-only loans are also available.
- **Improved marketability:** Loan sizes exceed \$25 million.

### Security Features

- The MBS pass-through rate is the applicable LIBOR Index plus the MBS Margin (i.e., the mortgage margin minus the guaranty and servicing fees).
- AAA-rated credit strength due to Fannie Mae's guaranty of timely payment of principal and interest to the MBS trust.
- MBS/SARM identification:
  - 1-month LIBOR: ARM Plan # 03488.
  - 3-month LIBOR: ARM Plan # 03487.

### Loan Features

- Loan terms: 5-, 7-, or 10-years.
- Day count convention: Actual/360.
- Lookback Period: One-day.
- Conversion Eligibility: Eligible to convert to a fixed-rate loan after the first year of the loan term, based on satisfaction of eligibility criteria established at origination.
  - An exercise of the conversion option will result in the repurchase of the MBS/SARM loan from the MBS pool and prepayment of MBS/SARM security.

### Prepayment Premium Options

- Two prepayment premium options are available for MBS/SARM loans as described below. However no portion of the prepayment premium will be passed through to the MBS investor.
  - 1-Year Lockout, then 1% until 3 months before maturity, then open.
  - 1-Year Lockout, then a declining prepayment schedule until 3 months before maturity, then open.

### Credit Characteristics

- The debt service coverage ratio (DSCR) will be calculated using a variable underwriting rate (typically 3% above the initial interest rate on the MBS/SARM loan). The amount that Fannie Mae will lend on a property that secures an MBS/SARM loan will generally be limited to the lower of:
  - 1) the amount calculated using the applicable minimum DSCR and maximum loan-to-value (LTV) for the loan, as described below, or
  - 2) the amount calculated for a fixed-rate loan with similar terms and credit characteristics.

For example, while the underwritten DSCR on a MBS/SARM loan may be 1.00 due to the 3% add-on in the variable underwriting rate, the actual DSCR may be 1.40 at the actual interest rate.

- Tier characteristics for MBS/SARM.

<u>Tier</u>	<u>Minimum DSCR at Underwriting Interest Rate</u>	<u>Maximum LTV</u>
2	1.00	75%
3	1.10	65%
4	1.30	55%

- Borrowers are generally required to enter into a hedging arrangement (typically an interest rate cap agreement) with an approved third-party provider to mitigate their risk to changes in the applicable LIBOR index.
  - The term of the hedge varies, but often is shorter than the term of the loan, requiring the purchase of a replacement hedge during the term of the loan.
  - The Borrower is typically required to escrow for a replacement hedge.
  - Payments on the hedge are made between the Borrower and the hedge provider and do not pass through to the MBS investor.

### **Additional Resources**

For more detailed information about Structured ARM, see the Fannie Mae Multifamily Delegated Underwriting and Servicing Guide found on AllRegs® Online.