Multifamily Mortgage Business Guide Update 17-03

April 19, 2017

To: Multifamily Lenders

From: Rob Levin, Vice President for Credit, Multifamily Chief Underwriter

Subject: Guide Update 17-03 – Adjustable Rate Mortgage Loans and Structured ARM Loans

HIGHLIGHTS

Effective April 24, 2017, Fannie Mae is updating the underwriting requirements for Adjustable Rate Mortgage Loans (ARM Loans) and Structured ARM Loans (SARM Loans), affecting the following chapters of the Multifamily Selling and Servicing Guide (Guide) and associated Loan Documents:

- Part IIIC, Chapter 5 – Adjustable Rate Mortgage Loans;
- Part IIIC, Chapter 6 – Structured ARM Loans;
- Form 6103.ARM – Schedule 3 to Multifamily Loan and Security Agreement - Interest Rate and Conversion Provisions (ARM); and
- Form 6103.SARM – Schedule 3 to Multifamily Loan and Security Agreement - Interest Rate and Conversion Provisions (SARM).

Underwriting Change

To improve the Lender’s ability to retain Portfolio Mortgage Loans, Fannie Mae is providing greater incentives to the Borrower to convert an ARM Loan or a Structured ARM Loan to a fixed rate Mortgage Loan rather than refinancing. If an ARM Loan or a SARM Loan converts to a fixed rate Mortgage Loan during an interest-only period, and the Borrower elects a fixed rate Mortgage Loan term greater than or equal to the original term of the applicable ARM Loan or SARM Loan, the Lender may permit the remaining portion of such interest-only period to carry over to the fixed rate Mortgage Loan, with Amortization required to commence following the completion of the interest-only period.

Other Changes

To further streamline the Guide, redundant language from Part V, Section 213 of the Guide regarding the calculation of the Prepayment Premium has been deleted from Part IIIC, Chapter 5.

Clarifying language has been added to permit a SARM Loan to be used, with prior Fannie Mae approval, for a Credit Enhancement Mortgage Loan when the Credit Enhancement is delivered in the form of an MBS.

Please refer to the Guide chapters for complete details and other editorial changes. The revised Form 6103.ARM and 6103.SARM are now available on the Loan Documents page on fanniemae.com. For additional details on the conversion of an ARM Loan or a SARM Loan to a fixed rate Mortgage Loan, please...
see “Frequently Asked Questions (FAQs): Exercising the Fixed Rate Conversion Option for Adjustable Rate Mortgage Loans (ARM Loans) and Structured ARM Loans (SARM Loans)”, in the Learning Center on the Multifamily page of fanniemae.com.

Effective Date
This Guide Update is effective for all Mortgage Loans with a confirmed Commitment on or after April 24, 2017.

Questions
Please contact your Deal Team with any questions.

Associated Documents
- Part III C, Chapter 5 – Adjustable Rate Mortgage Loans (clean and blackline)
- Part III C, Chapter 6 – Structured ARM Loans (clean and blackline)
- Form 6103.ARM – Schedule 3 to Multifamily Loan and Security Agreement - Interest Rate and Conversion Provisions (ARM) (blackline)
- Form 6103.SARM – Schedule 3 to Multifamily Loan and Security Agreement - Interest Rate and Conversion Provisions (SARM) (blackline)
- Frequently Asked Questions (FAQs): Exercising the Fixed Rate Conversion Option for Adjustable Rate Mortgage Loans (ARM Loans) and Structured ARM Loans (SARM Loans)