Multifamily Mortgage-Backed Securities: Structured Adjustable-Rate Mortgages (SARMs)

Fannie Mae’s Multifamily Mortgage-Backed Securities (MBS) backed by Structured Adjustable-Rate Mortgages (SARMs) offer an attractive adjustable-rate mortgage of $25 million or more¹ delivered through our Delegated Underwriting and Servicing (DUS®) program. A SARM loan is an adjustable-rate mortgage loan typically with an external interest rate cap purchased by the borrower and an adjustable interest rate that is equal to 30-day Compounded Average SOFR ² plus a margin. SARM loans are one of Fannie Mae’s multifamily adjustable-rate product offerings, along with the Hybrid ARM, ARM 5/5, and ARM 7/6.

Under FHFA guidance, Fannie Mae stopped purchasing and securitizing LIBOR-indexed ARMs at the end of 2020, and by June 30, 2023, legacy 1-month LIBOR-indexed SARMs will be converted to an alternative reference rate at Fannie Mae’s discretion, as detailed in the MBS offering documents. (We have not yet chosen a replacement index given that LIBOR remains available.)

¹ As of March 2022, Fannie Mae Multifamily may elect to approve loans under this minimum, provided certain other credit characteristics are met.

² Beginning September 1, 2020, Fannie Mae began quoting, and on October 1, 2020, began accepting delivery of Multifamily ARMs indexed to the 30-day Compounded Average SOFR published by the Federal Reserve Bank of New York.
Investor Benefits

- **Uncapped adjustable-rate security.** 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.

MBS Features

- The MBS pass-through rate is the applicable LIBOR or SOFR Index plus the MBS margin, which is the ARM margin minus the guaranty and servicing fees.
- SARM identification:
  - 1-month LIBOR: ARM Plan #03488
  - 30-day Compounded Average SOFR: ARM Plan #04932

Loan Features

- Minimum loan amount: $25 million.
- Loan terms: 5-10 years.
- Lockout period: 1st loan year.
- Interest rate adjustment: occurs every month, with no limit on number or size of rate changes except for the interest rate flow.
- Interest Accrual Method: actual/360.
- Lookback period: one business day.
- Conversion eligibility: permitted, with no prepayment premium 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).

Prepayment Premium Options

- Two prepayment premium options are available for SARM loans.
  - 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.
- Example prepayment premium schedules for two 10-year SARMs (1% prepayment premium and 10-year declining prepayment premium).

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1 As of March 2022. Fannie Mae Multifamily may elect to approve loans under this minimum provided certain other credit characteristics are met.

2 Prepayment premium schedules as they appear on DUS Disclose®, Fannie Mae’s multifamily disclosure platform.
No portion of any prepayment premium collected will be passed through to the MBS investor

Credit Characteristics

- The debt service coverage ratio (DSCR) will be calculated using a variable underwriting rate, which is typically 3% above the initial interest rate on the SARM loan.
- The amount that Fannie Mae will lend on a property that secures a 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 SARM loan may be 1.00x, due to the 3% add-on in the variable underwriting rate, the actual DSCR may be 1.40x at the actual interest rate.

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<td>Minimum DSCR at Underwriting Interest Rate</td>
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- Borrowers are generally required to enter a hedging arrangement—typically an interest rate cap agreement—with an approved third-party provider to mitigate their risk to changes in the applicable SOFR or LIBOR index.
  - The term of the hedge varies, but is often 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 SARMs, see the Fannie Mae Multifamily Delegated Underwriting and Servicing Guide on DUS Navigate®. Relevant topics include:

- Structured Adjustable-Rate Mortgage (SARM) Loans
- Structured Adjustable-Rate Mortgage (SARM) Loans Term Sheet
- LIBOR Transition Website