



# Best Practices in Managing Interest-Rate Hedges

Fannie Mae asked several multifamily Mortgage Loan Servicers to share their techniques for placing, tracking, and managing Interest Rate Hedges. Many of the practices they cited below expand upon the basic requirements for Interest Rate Hedges specified in the Multifamily Selling and Servicing Guide.

Function	Procedures
Written policies and procedures	<p>Servicers establish written policies and procedures to govern the following activities:</p> <ul style="list-style-type: none"> <li>• On-boarding new hedges</li> <li>• Hedge monitoring and replacement</li> <li>• Escrow management</li> <li>• Internal and external reporting</li> <li>• Communication with the Borrower and Fannie Mae</li> </ul>
Documentation	<p>Servicers retain the following types of documents:</p> <ul style="list-style-type: none"> <li>• Correspondence from the Borrower</li> <li>• Bid confirmation sheet from third-party provider or derivative broker</li> <li>• Interest Rate Cap or Interest Rate Swap Agreement</li> <li>• Assignment of Interest Rate Cap or Interest Rate Swap</li> <li>• Supplemental Hedge Security Agreement</li> <li>• UCC Financing Statements</li> </ul>
Escrow management	<p>Servicers invest escrow accounts conservatively and analyze contribution levels regularly to ensure adequate funding.</p> <ul style="list-style-type: none"> <li>• Escrow investment and accounting <ul style="list-style-type: none"> <li>○ Invested in conservative investments permitted by the Guide</li> <li>○ Reconciled independently to depository statements monthly</li> </ul> </li> <li>• Escrow analysis <ul style="list-style-type: none"> <li>○ Conducted annually or quarterly depending on controlling documents and prevailing market conditions</li> <li>○ Based on information obtained from third-party derivative brokers and bid managers</li> </ul> </li> </ul>
Payment management: Interest Rate Caps	<p>Servicers manage payments between Borrower, counterparty, and Fannie Mae.</p> <ul style="list-style-type: none"> <li>• Performing Mortgage Loans <ul style="list-style-type: none"> <li>○ Confirm receipt of expected amounts from counterparty; reconcile internal strike warning report with counterparty's monthly settlement advice</li> <li>○ Remit payment to Borrower</li> </ul> </li> <li>• Delinquent Mortgage Loans <ul style="list-style-type: none"> <li>○ Notify Fannie Mae Loss Mitigation group of a delinquency involving a hedge and obtain guidance regarding fund disposition</li> </ul> </li> </ul>



Function	Procedures
	<ul style="list-style-type: none"> <li>○ Confirm receipt of expected amounts from counterparty; reconcile internal strike warning report with counterparty's monthly settlement advice</li> <li>○ Continue standard investor and delinquency reporting as required by the Fannie Mae Multifamily Guides</li> </ul>
Payment management: Interest Rate Swaps	<p>Servicers manage payments between Borrower, counterparty, and Fannie Mae.</p> <ul style="list-style-type: none"> <li>• Performing Mortgage Loans               <ul style="list-style-type: none"> <li>○ Confirm receipt of settlement advice and payment</li> <li>○ Service settlement payments between Borrower and swap provider as specified in documents</li> </ul> </li> <li>• Delinquent Mortgage Loans               <ul style="list-style-type: none"> <li>○ Notify Fannie Mae Loss Mitigation group of a delinquency involving a hedge</li> <li>○ For net payments due swap provider – collect payment from Borrower or advance funds; remit to swap provider</li> <li>○ For net payments due Borrower – collect payment from swap provider and hold as additional collateral; obtain guidance from Fannie Mae's Loss Mitigation group regarding fund disposition</li> <li>○ Continue standard investor and delinquency reporting as required by the Fannie Mae Multifamily Guides</li> </ul> </li> </ul>
Tracking	<p>Servicers, at a minimum, track the following attributes, generally through their loan servicing systems:</p> <ul style="list-style-type: none"> <li>• Hedge type</li> <li>• Effective date</li> <li>• Term</li> <li>• Index type</li> <li>• Strike rate</li> <li>• Original notional amount</li> <li>• Termination date</li> <li>• Provider name</li> </ul>
Management review	<p>Servicers suggest regular review of the following reports:</p> <ul style="list-style-type: none"> <li>• Monthly hedge tracking</li> <li>• New hedge set-up</li> <li>• Swap settlement</li> <li>• Strike rate warning</li> <li>• Ticklers</li> <li>• Counterparty payment confirmations</li> </ul>
Interest Rate Hedge replacement	<p>Hedge replacement requires carefully coordinated communication:</p> <ul style="list-style-type: none"> <li>• Contact with Borrower</li> </ul>



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	<ul style="list-style-type: none"><li>○ First contact 60 to 90 days before hedge expiration via e-mail or telephone</li><li>○ Follow-up 30 to 60 days before hedge expiration via e-mail or telephone</li><li>○ Weekly updates during 30 days prior to expiration</li><li>● Contact with Fannie Mae<ul style="list-style-type: none"><li>○ First contact 30 to 60 days before hedge expiration via e-mail or phone; identify appropriate outside legal counsel</li><li>○ Follow-up 15 to 30 days prior to expiration via e-mail or phone</li><li>○ Hedge information should be uploaded to the Multifamily Asset Management Portal (MAMP)</li><li>○ Interest Rate Hedge information should be provided as follows:<ul style="list-style-type: none"><li>▪ for Credit Enhancement Mortgage Loans: upload Hedge Delivery Information (Form 4643) into CESIR;</li><li>▪ for all Interest Rate Hedges in Credit Facility and Bulk Delivery transactions: update hedge data in MSFMS;</li><li>▪ for Structured ARM Loans (except in Credit Facility and Bulk Delivery transactions): submit Interest Rate Hedge Delivery Information (Form 4643) through the MAMP</li></ul></li></ul></li></ul>

### For more Information

This summary is offered for informational purposes only. For complete requirements, please see the Multifamily Selling and Servicing Guide and the terms of the specific hedge agreements. For questions, please contact Fannie Mae at:

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