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)

The current Multifamily Loan Document forms permit the conversion of any ARM Loan or SARM Loan to a fixed rate Mortgage Loan according to terms of the Loan Documents. This information assists Lenders in managing a Borrower's conversion request but does not replace the terms and conditions outlined in the Loan Documents, the Multifamily Selling and Servicing Guide (Guide), or the Multifamily Underwriting Standards (Form 4660). Lenders should contact their Fannie Mae Deal Team with any questions.

REGISTRATION/COMMITTING and DELIVERY

Q1. **Should a request for a conversion of an ARM Loan or a SARM Loan to a fixed rate Mortgage Loan be registered in DUS Gateway™?**

Yes, all conversions, including those for Structured Transactions, must be registered in DUS Gateway.

Q2. **Which identifiers must be selected in DUS Gateway to designate a conversion?**

The Lender must select the following:

Loan Purpose = "Refinance"; and

Interest Rate Conversion = "ARM to Fixed".

Q3. **Are conversions delegated to the Lender?**

All conversions, other than in a Structured Transaction, are delegated unless the Borrower is requesting changes to the existing Loan Documents or variances to the Guide (collectively referred to as "Waivers"), or to the Multifamily Underwriting Standards ("Pre-Review").

For Structured Transaction conversions, Lenders and the Fannie Mae Deal Teams work with Asset Management to review the specific transaction and communicate via the Chatter tool in DUS Gateway at the following address:

Structured_AM@fanniemae.com

Q4. **How are Waivers and/or Pre-Review requests processed?**

For Structured Transaction conversions, Waivers are not applicable; please refer to Q3.

For all other conversions, Waivers or Pre-Review requests must be submitted through the existing DUS Gateway process.

Q5. **How does the Lender determine the Gross Note Rate for the fixed rate Mortgage Loan at conversion?**

The specific Loan Documents determine whether the Gross Note Rate should be calculated based on the (a) Guaranty Fee (G Fee) and Servicing Fee (S Fee) for a fixed rate Mortgage Loan currently in effect at the time the Borrower enters into a Rate Lock with the Lender for the fixed rate Mortgage Loan, or (b) the G Fee and S Fee in effect for the ARM Loan or SARM Loan. If the Loan Documents require the use of the existing G Fee and S Fee for the ARM Loan or SARM Loan, the Lender may submit a waiver to use the current G Fee and S Fee for the fixed rate Mortgage Loan.

Q6. **The "Commitment Details" screen in C&D asks for a "Deal Management Deal ID", what is entered in this field?**

The Lender must enter the DUS Gateway Deal ID in this field. Please contact MF_Acquisitions@fanniemae.com with any questions regarding C&D data entry.

Q7. **Which Loan Document is used to execute the Conversion option?**

Form 6614 – Amendment to Multifamily Loan and Security Agreement (Conversion to Fixed Rate).

Q8. **What is the process for Fannie Mae to execute Form 6614 – Amendment to Multifamily Loan and Security Agreement?**

The Lender delivers Form 6614 to Fannie Mae for execution. Fannie Mae will execute and return Form 6614 to the Lender for inclusion in the Multifamily Mortgage Loan Delivery Package. The Lender delivers Form 6614 to Fannie Mae for execution at the following address:

Fannie Mae
1100 15th Street, NW
Washington, DC 20004
Attn: Multifamily Acquisitions

Q9. **Is a new DUS DocWay™ folder created for the additional underwriting documents?**

Yes. A new DUS DocWay folder is created for the new fixed Rate Mortgage Loan. In addition, Fannie Mae recommends that the Lender place a note in the new DUS DocWay folder to cross reference the original folder number of the ARM Loan or SARM Loan associated with the new fixed rate Mortgage Loan transaction.

GENERAL INFORMATION

Q10. **Which ARM Loans and SARM Loans can convert?**

The Lender must review the Loan Documents to confirm the available conversion option for the specific Mortgage Loan based on its Loan Plan. Currently offered Loan Plans all permit the conversion to a fixed rate Mortgage Loan of a SARM Loan, or of ARM 7-6™ and Hybrid ARM Loans.

Q11. **Is a prepayment premium due at conversion?**

No, a Prepayment Premium is never charged in connection with the conversion of any ARM Loan or SARM Loan to a fixed rate Mortgage Loan.

Q12. **What is the 25 bps premium that the Pricing Memo permits the Lender to earn in connection with the MBS trade of an ARM Loan or a SARM Loan converting to a fixed rate Mortgage Loan?**

The 0.25% premium is the maximum amount the Lender is permitted to earn on the trade with an Investor of the MBS backed by the converted fixed rate Mortgage Loan for 7- and 10-year loan terms (i.e., the Lender may sell the MBS backed by the new fixed rate Mortgage Loan to the Investor at 100.25% of par). For a floating rate mortgage loan converted to a 5-year loan term, any premium on the trade of the MBS in excess of 0.25% must be approved by the Multifamily Pricing Desk, and any approved premium over 0.25% must be shared equally with Fannie Mae.

Q13. **What are the fees at conversion?**

There is no origination fee at conversion, but there is a conversion review fee. The conversion review fee was negotiated at origination between the Lender and the Borrower and is specified in the Loan Documents. The fee is non-refundable, separate from the Good Faith Deposit, and should be reasonable in nature to cover the re-underwriting of the transaction. For Structured Transactions, the fee is shared with Fannie Mae; for all other transactions, the Lender retains the fee.

Q14. **What are the conversion loan term options?**

ARM Loans and SARM Loans with the conversion option can convert to a fixed rate Mortgage Loan in accordance with the terms of the Loan Documents. The fixed rate Mortgage Loan term options are:

7-year term with a 5-year or 6.5-year Yield Maintenance Period; and

10-year term with a 7-year or 9.5-year Yield Maintenance Period.

A 5-year term will be considered on a Pre-Review basis.

Q15. **How is the Amortization period determined on an ARM Loan or SARM Loan at conversion?**

The Lender must confirm the Amortization terms specified in the Loan Documents. The terms in the Loan Documents describe the requirements for an existing Mortgage Loan. For new transactions, the Guide permits the Amortization period on the fixed rate Mortgage Loan to be reset to 360 months if (a) the term for the new fixed rate Mortgage Loan is greater than or equal to the term for the ARM Loan or SARM Loan, and (b) the Property condition is a "1" or "2". The following Multifamily Guide section describes the terms for a new Mortgage Loan acquired with a conversion option:

ARM & SARM Loans – Part IV, Chapter 7, Section 702.06

For 5-year fixed rate loan terms, amortization up to 360 months will be considered on a Pre-Review basis.

Q16. **Can the Borrower carry over any remaining Interest-Only (IO) period into the fixed-rate term?**

Yes. To carry over any IO Period, the Borrower must elect a fixed rate Mortgage Loan term greater than or equal to the original term of the ARM Loan or SARM Loan. The remaining portion of the IO period may then carry over to the fixed rate Mortgage Loan, with Amortization required to commence following the completion of the IO period. However, the IO period may not be extended beyond the original IO period.

For 5-year fixed rate terms, IO will be determined on a Pre-Review basis with consideration for carrying over the remaining IO term, up to full term IO for the 5-year conversion term only; IO must comply with Guide requirements for the 7- and 10-year fixed conversion loan terms.

Q17. **Can the loan amount be increased at conversion?**

No, the loan amount does not change at the time of conversion. The Borrower must request a Supplemental Mortgage Loan if additional proceeds are desired.

For Structured transactions, the Borrower must request a "borrow up", subject to Loan Document terms, to obtain additional proceeds.

Q18. **How is the Minimum Conversion Debt Service calculated for a conversion of a variable rate Supplemental Mortgage Loan?**

The conversion underwritten debt service must be calculated based on the combined debt service amount of all Pre-Existing Mortgage Loans plus the Supplemental Mortgage Loan, and must also meet the requirements in Part IV, Chapter 7, Section 702.02 of the Multifamily Guide.

Q19. **What are the benefits of converting?**

The Borrower can secure a fixed rate of interest without incurring the higher cost of refinancing when rising interest rates no longer make the adjustable interest rate an attractive option.

Q20. **How quickly can the lender rate lock?**

It depends on how quickly the lender can conduct the required underwriting, get the conversion determination notice to the borrower, and how quickly the borrower accepts the determination. One week's time is possible for a motivated lender and borrower, though this process ultimately depends on the length of time it takes for the lender to review and accept the borrower documentation.

Q21. **Can the process be expedited for the conversion effective date to be moved forward by one month?**

Yes, we expect that in most cases, the lender will do same month pooling to ensure the shortest possible timeframe to fixed rate conversion. That way, the Borrower maximizes the conversion benefit without the risk of paying interest on two loans during the same month.

Q22. **In completing the determination notice, will the lender underwrite to the fixed rate DSCR or the variable rate DSCR?**

Conversions will always require underwriting to the fixed rate DSCR.

Q23. **Will a servicer still need to require a good faith deposit before rate lock?**

Servicers should require a good faith deposit before rate lock, consistent with the standard rate lock process. The only other fee stipulated is the conversion review fee, separate from the good faith deposit.

Q24. **For loans that are cross-collateralized and cross-defaulted, can one loan convert to fixed rate if the other remains variable rate?**

The conversion of one of the loans is possible without converting both. The Lender should select "Cross Default /Cross Collateralize" in the "Cross Default/Cross Collateralize" dropdown on Commitment page of C&D for the new loan, and they will need to enter information related to remaining loan in the Cross Relationship section on the loan page.