

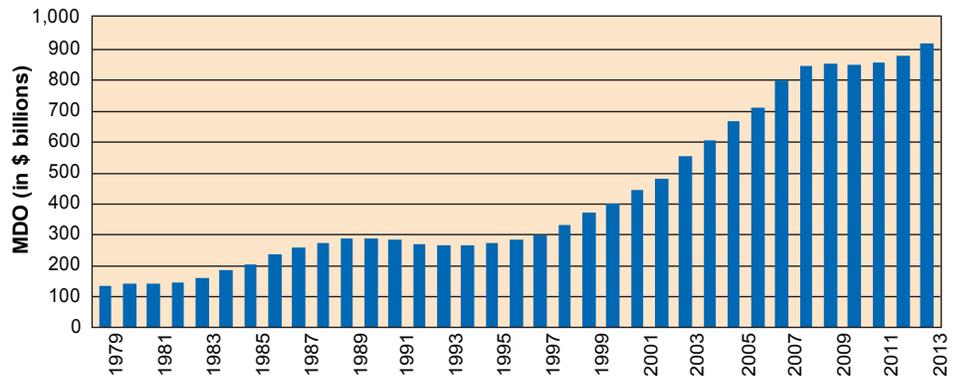
# Over 25 Years of Multifamily Mortgage Financing Through Fannie Mae's Delegated Underwriting and Servicing (DUS<sup>®</sup>) Program

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DUS MBS offer Fannie Mae's guaranty of timely payment of principal and interest, lower spread volatility relative to many other products, liquidity enhanced by the large number of dealers engaged in market-making, stable cash flows that are easy to model and superior call protection.

According to the Mortgage Banker's Association's (MBA) analysis of the Federal Reserve Board Flow of Funds data for 2013, the multifamily portion of mortgage debt outstanding (MDO) accounted for approximately 8.4 percent of the \$10.8 trillion total MDO, or \$917 billion. **Figure 1** displays the growth of multifamily MDO since 1979.

**Figure 1: Multifamily MDO from 1979 to 2013\***



\* Includes debt and commercial mortgage-backed securities.

Source: Federal Reserve Flow of Funds

Fannie Mae, the largest government-sponsored enterprise provider of financing for the multifamily market, supports affordable multifamily housing by providing financing for investments in individual properties or groups of properties, as well as through securitization of loans secured by multifamily properties. Furthermore, Fannie Mae provides this financing through a nationwide network of Delegated Underwriting and Servicing (DUS) lenders; through the DUS lenders, Fannie Mae either finances or guarantees the financing of several types of multifamily properties including apartment buildings, manufactured housing communities, and cooperatives with five or more individual units.

Over twenty-five years ago, in 1988, Fannie Mae began purchasing multifamily loans through its DUS program and holding these loans in portfolio. In August 1994, the company began securitizing DUS loans and created DUS Mortgage-Backed Securities (DUS MBS). DUS MBS offer Fannie Mae's guaranty of timely payment of principal and interest; lower spread volatility relative to many comparable products, liquidity enhanced by the large number of dealers engaged in market making, stable cash flows that are easy to model and superior call protection. In 2013, Fannie Mae multifamily MBS issuance volume was approximately \$28.5 billion, with \$148.7 billion of multifamily MBS outstanding as of December 31, 2013.

This edition of *MBSenger* details the growth and development of Fannie Mae’s DUS program over the years. Specifically, we review the notable characteristics of Fannie Mae’s DUS program, highlighting the DUS MBS product and exploring the performance features of these securities that fixed-income investors may find beneficial. We also examine the key aspects of other types of Fannie Mae Multifamily securities.

### The DUS Program

Initiated in 1988, the DUS program grants approved lenders the ability to underwrite, close, and sell loans on multifamily properties to Fannie Mae without prior Fannie Mae review. These DUS lenders must abide by rigorous credit and underwriting criteria and their firms are continuously subject to ongoing credit review and monitoring. Additionally, DUS lenders usually retain a risk position in the loans that they sell to Fannie Mae. Under the DUS program, approved lenders can originate fixed-rate, adjustable-rate, balloon, fully-

amortizing, partial and full-term interest-only multifamily mortgage loans. These DUS loans can be financed through MBS, DMBS, or Bond Credit Enhancement<sup>1</sup> executions. **Table 1** identifies the types of multifamily properties used as collateral for loans that may be securitized into DUS MBS.

The most common final balloon maturities for fixed-rate multifamily loans are 5, 7, 10, 12, and 15 years, while adjustable-rate mortgage loans usually have final balloon maturities of 5, 7 or 10 years. The most common DUS MBS is a 10/9.5 fixed rate (a 10-year balloon with 9.5 years of yield maintenance), followed by the 7/6.5 fixed rate (a 7-year balloon with 6.5 years of yield maintenance). Since mid-2011, our ARM 7-6<sup>TM</sup>, which provides a variable-rate financing option with an embedded cap and an option to convert to a fixed-rate mortgage loan, has become a popular product as well.

**Table 1: Types of Multifamily Mortgaged Properties Eligible for DUS MBS**

Property Type	Description
Standard Conventional Multifamily	A multifamily loan secured by a residential property composed of five or more dwelling units and in which generally no more than 20 percent of the net rentable area is rented to, or to be rented to non-residential tenants.
Multifamily Affordable Housing and Low-Income Housing Tax Credit	A multifamily loan on a mortgaged property encumbered by a regulatory agreement or recorded restriction that limits rents, imposes income restrictions on tenants or places other restrictions on the use of the property.
Seniors Housing	A multifamily loan secured by a mortgaged property that is intended to be used for elderly residents for whom the owner or operator provides special services that are typically associated with either “independent living” or “assisted living.” Some Alzheimer’s and skilled nursing capabilities are permitted.
Manufactured Housing Community	A multifamily loan secured by a residential development that consists of sites for manufactured homes and includes utilities, roads and other infrastructure. In some cases, landscaping and various other amenities such as a clubhouse, swimming pool, and tennis and/or sports courts are also included.
Cooperative Blanket	A multifamily loan made to a cooperative housing corporation and secured by a first or subordinate lien on a cooperative multifamily housing project that contains five or more units.
Dedicated Student Housing	Multifamily loans secured by multifamily properties in which college or graduate students make up at least 80% of the tenants.

To review specific details of each multifamily mortgaged property type, please refer to our Multifamily MBS Prospectus, which can be found under [Prospectus & Related Documents](#) on our website.

<sup>1</sup> Our Bond Credit Enhancement product provides credit enhancement for tax-exempt bonds issued by state and local housing finance agencies and is often used to finance Low Income Housing Tax Credit (LIHTC) properties and preserve older HUD-assisted properties.

## DUS Lenders

As of April 1, 2014, Fannie Mae had 24 DUS lenders, which are listed in **Table 2**.

**Table 2: List of DUS Lenders**

ACRE Capital, LLC
AmeriSphere Multifamily, LLC
Arbor Commercial Funding, LLC
Beech Street Capital, LLC
Berkadia Commercial Mortgage, LLC
Berkeley Point Capital LLC
CBRE Multifamily Capital, Inc.
Centerline Capital Group
Citibank, N.A.
Dougherty Mortgage, LLC
Grandbridge Real Estate Capital, LLC
Greystone Servicing Corporation, Inc.
HomeStreet Capital Corporation
HSBC Bank USA, N.A.
JPMorgan Chase & Co.
KeyBank National Association
M&T Realty Capital Corporation
Oak Grove Capital
Pillar Multifamily, LLC
PNC Real Estate
Prudential Mortgage Capital Company
Red Mortgage Capital, LLC
Walker & Dunlop, LLC
Wells Fargo Multifamily Capital

Admission qualifications are stringent for consideration to be a DUS lender. Each lender must maintain acceptable levels of capital and liquidity in relation to its Fannie Mae obligations. Generally, each lender must demonstrate real growth in its net worth and im-

provement in its liquidity as the size of its Fannie Mae servicing portfolio and its exposure relating to any other business activities increase. Lenders must also:

- Maintain an established business of originating and servicing multifamily mortgage loans;
- Hold a license or other authority to do business in each jurisdiction where required, and the license or other authority must not be suspended or revoked by any governmental body or regulatory entity;
- Employ qualified underwriting, originating, and servicing personnel as it is the Lender's responsibility to underwrite and service the mortgage loans it sells to Fannie Mae;
- Continue adequate internal audit and management control systems to evaluate and monitor the overall quality of its multifamily loan production and servicing activities;
- Possess a financial condition acceptable to Fannie Mae; and,
- Maintain fidelity/surety bonds with errors and omissions insurance in amounts acceptable to Fannie Mae.

Furthermore, DUS lenders are subject to quarterly and/or annual reviews to ensure that they continue to meet Fannie Mae's DUS lender eligibility requirements.

## Credit Quality of DUS Mortgage Loans

Eligible multifamily properties must be income-producing multifamily rental properties or cooperatives with a minimum of five individual units. These multifamily properties must be existing, recently completed, or in need of moderate rehabilitation. A majority of the properties qualify for 30-year amortization schedules. A DUS mortgage loan tends to range in size from \$1 million to \$50 million and is generally 'non-recourse'<sup>2</sup> to the borrower. Additionally, DUS loans generally are assumable after a review of the proposed transferee, although a one-percent transfer fee payable to Fannie Mae is commonly charged, which is not passed on to the MBS investor.

<sup>2</sup> Non-recourse: In the event of default, the lender agrees to take the pledged property as satisfaction for the debt and to have no claim on any other assets of the borrower.

<sup>3</sup> Debt Service Coverage Ratio (DSCR): Net Annual Operating Income (NOI) divided by Annual Debt Service (assumes 12 monthly mortgage payments).

Each mortgage is underwritten to a three-tier credit structure based on debt service coverage ratio (DSCR) and loan-to-value ratio (LTV). **Table 3** summarizes the LTV and DSCR values for each tier for standard conventional multifamily loans. DSCR and LTV requirements are subject to change based on market conditions. If a DSCR or LTV value rises above any tier level, investors should refer to Fannie Mae disclosure of the actual DSCR and LTV for each MBS to determine the credit performance of the loans backing the security. Stricter underwriting standards apply to other asset classes such as Seniors Housing, Student Housing, and Manufactured Housing. Various asset classes are described in the associated Multifamily MBS Prospectus.

**Table 3: Tier Level Credit Characteristics**

Rating	Minimum DSCR	Maximum LTV Ratio
Tier 2	Generally no lower than 1.25	Generally no higher than 80%
Tier 3	Usually falling within a range of 1.35 – 1.55	Usually falling within a range of 65% – 55%
Tier 4	Usually in excess of 1.55	Usually below 55%

\* These figures are not an indication of the DSCR or LTV characteristics that will apply to any given MBS, regardless of Tier. The DSCR, LTV and Tier for each MBS are disclosed in the offering documents for that MBS.

In addition to tier assignments, each property underlying the multifamily MBS is subject to three assessments.

1. An appraisal of the property is performed by a licensed appraiser selected by the DUS lender. Appraisals must conform to Uniform Standards of Professional Appraisal Practice (USPAP) standards. Fannie Mae does not approve specific appraisers. The DUS lender is responsible for selecting the appraiser and is solely accountable for their performance.
2. Either an environmental assessment or an American Society for Testing and Materials (ASTM) screen is required and an ongoing operations and maintenance plan may also be required to ensure the property is operated in an environmentally sound manner.

3. A physical needs assessment must be completed by a qualified evaluator designated by the DUS lender. If tenant safety, marketability, or property conditions are compromised by unacceptable circumstances, repairs may be ordered. Generally, if the repairs are not completed by the time of closing, a reserve fund for payment of the repairs may be established.

DSCR and Net Operating Income (NOI), is collected by Fannie Mae and disclosed on an annual basis.

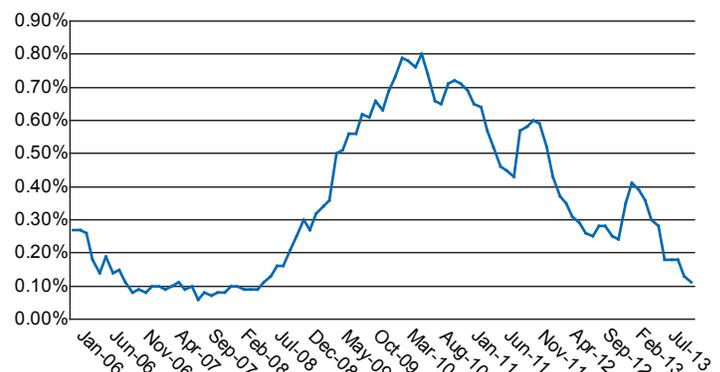
It is important to note that the underwriting guidelines in the DUS Guide are guidelines and not rigid requirements. A waiver or exception may be granted if it is deemed by Fannie Mae to be prudent given the applicable circumstances.

### DUS Loss Sharing Arrangements

Fannie Mae delegates the responsibility for underwriting and servicing DUS loans to the DUS lenders. Lenders enter into loss sharing agreements with Fannie Mae that specify the method of sharing any losses on the loans that they deliver and/or service. These arrangements vary among transactions, ranging from the DUS lender bearing a specified first loss percentage for a transaction to the DUS lender having no loss sharing obligation for a transaction. The most common loss sharing of DUS loans is pari-passu, in which the lender bears one-third of the losses and Fannie Mae is responsible for the remaining two-thirds.

This loss-sharing element is an incentive for DUS lenders to monitor and manage credit exposure on an active basis. As seen in Figure 2, the Fannie Mae multifamily serious delinquency rate<sup>4</sup> reflects the company's rigorous standards with rates at 0.10 percent as of December 31, 2013.

**Figure 2: Serious Delinquency Rates**



<sup>4</sup> Includes multifamily loans 60 days or more past due and is calculated based on the UPB of delinquent multifamily loans owned by Fannie Mae or underlying Fannie Mae-guaranteed securities, divided by the UPB of multifamily loans owned by Fannie Mae or underlying Fannie Mae-guaranteed securities.

## DUS MBS Securities

DUS MBS securities carry Fannie Mae's guaranty of timely payment of principal and interest. Principal and interest payments are paid on the MBS monthly on the 25th calendar day (if the 25th calendar day is not a business day, then the next business day). Upon maturity, the entire outstanding unpaid principal balance is paid to the investor on the 25th of the month of maturity.

The Fannie Mae guaranty on DUS MBS mirrors that provided for single-family Fannie Mae MBS. Fannie Mae has never missed a scheduled payment of principal and interest on any of its mortgage-backed securities, single-family or multifamily. It is important to note that Fannie Mae DUS MBS are not guaranteed by the United States and do not constitute a debt or obligation of the United States or any of its agencies or instrumentalities other than Fannie Mae. Fannie Mae alone is responsible for making payments under its guaranty.

DUS MBS are classified by a multifamily prefix to identify the type of multifamily mortgage loans that are included in a specific pool. **Table 4** lists the top three most commonly assigned multifamily pool prefixes from 2011 – 2013.

DUS MBS pools are not restricted to a minimum or maximum unpaid principal balance nor is there a restriction on the number of loans allowed into a single DUS MBS pool at issuance. Typically, each DUS MBS pool contains one DUS loan, but can incorporate multiple DUS loans made by the same lender to the same or affiliated borrowers. In 2013, 98.2 percent of DUS MBS pools consisted of one DUS loan and 1.8 percent had two or more DUS loans.

## Multifamily Megas

Fannie Mae introduced the DUS MBS Mega program in August 1996 to provide the ability to combine DUS MBS pools into a single, larger pool, which facilitates additional geographic and borrower diversity as well as ease of operational administration. In a DUS MBS Mega, fixed rate DUS MBS securities with the same prefix are pooled together. The combination of Fannie Mae MBS coupons typically will be restricted to an inclusive 100 basis point range from the highest to lowest Fannie Mae MBS coupon.

## Fannie Mae GeMS Program

Fannie Mae Guaranteed Multifamily Structures (Fannie Mae GeMS)<sup>5</sup> are structured multifamily securities created from multifamily MBS collateral selected by Fannie Mae's Multifamily Capital Markets Desk. The program was launched in 2011 and includes Multifamily Megas and REMICs. The program attracts additional capital to multifamily finance from larger institutional investors who might not find the characteristics of smaller, single-loan DUS MBS attractive. GeMS provide par-priced, block size, structured securities with collateral diversity and customized cash flows to meet investor demand. In 2013, Fannie Mae issued \$10.2 billion in GeMS, a record year of total issuance.

## Day Count Conventions for Payment of Interest

The day count describes the method in which accrued interest and coupon payments are calculated. DUS MBS have one of two day count conventions: 1) count the actual days per month and use a 360-day calendar year, Actual/360; or 2) count 30 days for each month and use 360 days per year, 30/360. The difference between the two methods is that the amount of each monthly payment that is allocated to interest will be

**Table 4: Top Three Fannie Mae MBS/DUS Pool Prefixes Assigned from 2011 – 2013**

Prefix	Definition	Total At-Issuance UPB (in \$ billions)	% of Total MBS/DUS
HY	Conventional, Balloon, Actual/360 interest day basis calculation; Multifamily; maturing in greater than seven years.	\$52.0	67%
HX	Conventional Short-Term, Balloon, Level-Payment Mortgages; Actual/360 interest day basis calculation; Multifamily; maturing or due in seven years or less.	\$14.2	18%
HA	Conventional Adjustable-Rate, Actual/360 interest day basis calculation; Multifamily; maturity dates vary.	\$8.7	11%

**Table 5: The effective pass-through rate for a 5% DUS MBS security that is backed by loans using the actual/360 method**

Day Count	Equation	Result	Pass-through Rate after conversion	Effective Pass-through Rate prior to conversion
28	(28/30) =	0.9333333 *	5.00000%	4.66600%
29	(29/30) =	0.9666667 *	5.00000%	4.83300%
30	(30/30) =	1.0000000 *	5.00000%	5.00000%
31	(31/30) =	1.0333333 *	5.00000%	5.16600%

Using this 5% example, assuming a 31 day month, and applying it to a \$1,000,000 DUS MBS, the conversion of the payment to a 30/360 day count convention would result in a monthly payment which equals  $\$1,000,000 \times 5.16600\% \times (30/360) = \$4,305.00$ .

based on 30 days in a month for the 30/360 method and on the actual number of calendar days during the month for the Actual/360 method. In a 31-day month, more of the monthly payment amount will be allocated toward interest using the Actual/360 method than will be allocated toward interest using the 30/360 method. Because there are actually 365 or 366 days in a year, loans using the Actual/360 method amortize more slowly and generate more interest than loans at the same note rate using the 30/360 method. As a result, a fully-amortizing loan accruing interest on the Actual/360 basis is likely to have an outstanding principal balance on the stated maturity date of the loan.

The Federal Reserve calculates interest distribution amounts on a 30/360 basis. Accordingly, Fannie Mae converts the pass-through rate on pools backed by loans using the Actual/360 method to a 30/360 basis. This is done by multiplying it by: (a) for 31-day months - 1.0333333; (b) for 29-day months, 0.9666667; and (c) for 28-day months, 0.9333333. The resulting figure is truncated to the 3rd decimal place. On our Multifamily Securities Locator Service web site, the pass-through rate is displayed with a '0' in the 4th and 5th decimal places. The conversion to a 30/360 basis may result in a minor variation in the effective pass-through rate in months with other than 30 days. Consult the Multifamily Schedule of Loan Information, a part of the related Prospectus Supplement, to see if the related loan has an interest basis of Actual/360 or 30/360 and to ascertain the interest accrual method. For both day count convention methods, the investor is paid principal and interest on the 25th calendar day of each month. If

the 25th calendar is not a business day, the payment is made on the next business day. **Table 5** on page 6 shows an example of these calculations.

### Prepayment Protection

As part of the DUS program, each DUS loan generally has voluntary prepayment protection provisions. For fixed-rate loans, the prepayment premium is usually a yield maintenance premium or a declining percentage of the unpaid principal balance. For adjustable-rate loans, the prepayment premium may be a declining percentage or a fixed percentage of the unpaid principal balance. Other methods for calculating prepayment premiums are also possible. The prospectus supplement will specify whether the loans in an MBS pool have prepayment premiums and, if so, will specify the method for calculating the prepayment premiums. The prospectus supplement will also state whether certificateholders share in any prepayment premiums collected on prepaid loans in the pool and, if so, will describe the method of allocation.

- I. Yield maintenance, the most common form of prepayment protection, allows for full prepayments along with a yield maintenance prepayment premium payable by the borrower. The yield maintenance prepayment premium for each mortgage loan is payable during a period of time, the yield maintenance period. If a borrower voluntarily prepays a mortgage loan during the yield maintenance period, the yield maintenance prepayment premium is based on a standard calculation. Please refer to pages 7 and 8 for calculation details and examples.

<sup>5</sup> Fannie Mae GeMS: <http://www.fanniemae.com/mbs/mbsmultifamily/gems.jhtml>

<sup>6</sup> The yield maintenance formula changed for all Fannie Mae multifamily mortgage loans committed on or after September 1, 2009. See the following illustration for a detailed example of the yield maintenance fee calculation.

## Illustration of the Yield Maintenance Fee Calculation for a 10-year DUS loan with 9.5 years of Yield Maintenance

### Characteristics of Multifamily Loan to be Voluntarily Prepaid:

- Fannie Mae multifamily mortgage loan note rate = 4.35%.
- MBS Pass Through Rate = 3.00%.
- \$1,118,222.29 of principal prepaid voluntarily on April 25, 2012.
- Yield Maintenance end date = October 25, 2018.
- Remaining term of Yield Maintenance = 6.5 years.

### Constant Maturity Treasury (CMT) Rate Calculation:

The CMT rate date for this example is March 21, 2012, which is the 25th business day prior to the payoff date of April 25, 2012. The rate is calculated for the remaining term of yield maintenance by interpolating between two CMT rates. In this example, interpolating a 6.5 year period between the 5-year CMT rate and the 7-year CMT rate.

CMT rate data is sourced from the U.S. Treasury Statistical Release H.15 (Selected Interest Rates) which can be found at the following link: <http://www.federalreserve.gov/releases/h15/data.htm/>

If publication of the Fed Release is discontinued by the Federal Reserve Board, Fannie Mae will determine the yield rate from another source selected by Fannie Mae.

CMT Interpolation Equation and Calculation:

$$\left[ \left( \frac{a-b}{x-y} \right) * (z-y) \right] + b$$

Where:

a = yield for the longer U.S. Treasury constant maturity

b = yield for the shorter U.S. Treasury constant maturity

x = term for the longer U.S. Treasury constant maturity

y = term for the shorter U.S. Treasury constant maturity

z = number of years remaining until the Yield Maintenance End Date (months divided by 12)

Example:

a = 1.71%, the yield for the 7-year U.S. Treasury constant maturity on March 21, 2012.

b = 1.15%, the yield for the 5-year U.S. Treasury constant maturity on March 21, 2012.

x = 7, the term for the longer U.S. Treasury constant maturity.

y = 5, the term for the shorter U.S. Treasury constant maturity.

z = 6.5 (or 78/12), the number of years remaining until the Yield Maintenance End Date (months divided by 12).

$$\text{Yield Rate} = \left[ \left( \frac{1.71-1.15}{7-5} \right) * (6.5-5) \right] + 1.15 = 1.57$$

### Yield Maintenance Example Using Interpolated CMT Rate:

Since the borrower voluntarily prepays during the yield maintenance period, the yield maintenance prepayment fee equals the greater of:

(a) 1% of the amount of principal being prepaid:

$$= 1\% \times \$1,118,222.29 = \$11,118.22 \text{ **OR**}$$

(b) the product obtained by multiplying

(1) the amount of principal being repaid

$$= \$1,118,222.29 \text{ **by**}$$

(2) the result of

a. the interest rate on the mortgage loan minus the yield rate (interpolated CMT)

$$= 4.35\% - 1.570\% = 2.78\% \text{ **by**}$$

b. the present value factor calculated by using the present value formula.

$$= \frac{1-(1+r)^{(-n/12)}}{r}$$

where r = yield rate on the interpolated CMT and

where n = number of months remaining between (A) the date of prepayment and (B) the prepayment end date

$$= [1-(1+1.570\%)^{(-78/12)}] / 1.570\% = 6.13372$$

$$\text{Total} = \$1,118,222.29 \times 2.78\% \times 6.13372 = \$190,676.42$$

The total yield maintenance prepayment fee paid by the borrower is **\$190,676.42**.

### Investor Portion of Yield Maintenance:

Incorporating variables above, the investor's share of the yield maintenance prepayment premium will equal the following:

- (1) the amount of principal being repaid (UPB at the date of prepayment), **times**
- (2) the difference between (A) the MBS Pass Through Rate<sup>7</sup> and (B) the Yield on the applicable U.S. Treasury constant maturity (as calculated previously), **times**
- (3) the present value factor (as calculated previously)  
= \$1,118,222.29 x (3.00% - **1.570%**) x  
6.13372  
= **\$98,081.73**

In this example, the investor receives **\$98,081.73** as compensation for prepayment.

It is important to note that Fannie Mae calculates the share of the prepayment premium to be retained by the company and the share of prepayment premium to be passed on to the investor. Fannie Mae will pass the yield maintenance prepayment premium to the investor only to the extent that collected premiums remain after the company has deducted its full portion. Fannie Mae does not guarantee payment of any prepayment premiums and Fannie Mae will only pass through the MBS investor's portion of a yield maintenance payment to the extent it is collected. If a borrower prepays a mortgage loan on or after the yield maintenance end date, Fannie Mae will not pay any portion of the prepayment premium to the investor.

The Treasury reference note used to compute the yield maintenance prepayment premium effectively increases this premium by the present value of the spread differential between a DUS MBS and Treasuries.

If the borrower prepays during the three months after the end of the yield maintenance period, the borrower may be charged a one percent prepayment premium based on the amount of prepaid principal. Prepayment premiums paid in connection with prepayments occurring after the yield maintenance end date are not passed through to MBS investors.

Fannie Mae publishes a Monthly Yield Maintenance Factor report which investors can use to calculate their share of yield maintenance for those MBS paying

yield maintenance in the current month. The report is described in greater detail in the appendix of this document.

- II. Defeasance is an alternative prepayment option selected at the time of origination that allows a property to be released from the mortgage lien prior to maturity in exchange for Fannie Mae or U.S. Treasury securities. Defeasance reduces the risk of reinvesting prepayment proceeds in an uncertain interest rate environment, since the property release does not interrupt the original expected cash flow to investors in securities backed by loans with defeasance.
- III. The prepayment premium option is a variable premium schedule known as a declining premium or a fixed premium. The declining premium is based on a percentage of the current unpaid principal balance and the percentage declines with the passage of time.
- IV. Prepayment lock-outs prohibit the borrower from voluntarily prepaying a loan for any reason, except for payments resulting from casualty or condemnation.

The various prepayment protection methods on DUS loans provide considerable compensation to investors and reduce the incentive for a DUS loan to be repaid before the prepayment end date (curtailment). Voluntary partial prepayments generally are prohibited on DUS loans. Involuntary prepayments such as condemnation awards or insurance proceeds may occur. Investors can determine the prepayment premium or yield maintenance formula that applies to the loan underlying a particular MBS by reading the Prospectus Supplement for that MBS type.

### DUS MBS Investor Benefits

A wide range of investors, including insurance companies, money managers, commercial banks, credit unions, and state and local governments find Fannie Mae DUS MBS an attractive investment. DUS MBS offer Fannie Mae's guaranty of timely payment of principal and interest, lower spread volatility relative to many other comparable fixed income products, liquidity enhanced by the large number of dealers engaged in market making, stable cash flows that are easy to model, and prepayment protection.

<sup>7</sup> Assume MBS Pass Through Rate equals 4.750%.

## Other Fannie Mae Multifamily MBS

In addition to the types of DUS MBS already described, Fannie Mae issues the following types of Multifamily MBS.

### Multifamily DUS Structured Transactions

Commonly executed with large REIT customers, multifamily Structured Transactions (credit facilities) provide both long-term and short-term flexible financing for a single pool of cross-collateralized and cross-defaulted multifamily mortgage loans. The properties securing the mortgage loans within the pool may be substituted, added, or released based on certain criteria, and additional borrowing on existing properties may be permitted if certain conditions are met. Structured Transactions are typically \$50 million and over in size, have a minimum term of five years, and may consist of both a fixed-rate portion and/or an adjustable-rate portion.

### DUS Discount Mortgage-Backed Securities (DMBS)

In addition to Fannie Mae DUS MBS, Fannie Mae also issues DMBS. DMBS are short-term securities typically issued with maturities of one month, three months, six months or nine months. Investors purchase these securities at a discount and are repaid at par upon maturity. These securities carry no prepayment risk as they are locked out for the full term. The effective interest rate is the amount of the discount,

which is determined at issuance of the initial DMBS through a competitive capital markets bid process. These securities allow borrowers to obtain a loan that mimics variable rate financing. Standard DUS loans and specialty products including Senior Housing, Student Housing, Manufactured Housing Communities and others can be collateral for DMBS, and both single-asset structures (backed by loans collateralized by one property) or multiple-asset structures (backed by loans collateralized by more than one property) are available. Upon maturity, multifamily borrowers may pay off the DMBS for cash, roll the DMBS over into a new DMBS, or convert to a fixed-rate MBS loan.

## Appendix Multifamily MBS Disclosures

This article describes many of the general characteristics of Fannie Mae Multifamily MBS; before investing in any Fannie Mae MBS (or DMBS), one should read and be sure to understand the disclosure documents published at issuance. These disclosure documents provide at-issuance information that allows potential investors to evaluate the risks and benefits of investing in Fannie Mae multifamily MBS. Fannie Mae also provides ongoing disclosure about the performance of the loans that underlie the MBS. Disclosure documentation and other online resources are available on the company's website, [www.fanniemae.com](http://www.fanniemae.com).

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## Disclaimer

This article is not an offer to sell any security or instrument or a solicitation of an offer to buy or sell any security or instrument. The information in this article is current as of the date hereof, but is subject to change, modification or amendment from time to time without prior notice. The information in this article is intended to provide an introduction to Fannie Mae's Multifamily MBS and related securities and its DUS program. It does not include all or even most of the information that is included in the prospectus and prospectus supplement relating to any issuance of Fannie Mae Multifamily securities. Not all Fannie Mae Multifamily securities will have the characteristics discussed in this article and some may have characteristics not mentioned in this article. Fannie Mae Multifamily MBS and DMBS are complex instruments intended for sale only to sophisticated investors who understand and assume the risks involved with the purchase thereof. Before investing in any Fannie Mae issued security, you should read the prospectus and prospectus supplement pursuant to which such security is offered. You should also determine, in consultation with your own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory and accounting characteristics and consequences, of investing in any such security. In addition, you should read our most current Annual Report on Form 10-K and our reports on Form 10-Q and Form 8-K filed with the U.S. Securities and Exchange Commission ("SEC") available on the Investors page of our Web site at [www.fanniemae.com](http://www.fanniemae.com) and on the SEC's Web site at [www.sec.gov](http://www.sec.gov).

## Multifamily Master Trust Agreement and Multifamily MBS Prospectus

Effective November 1, 2012, all Fannie Mae fixed-rate and adjustable-rate multifamily MBS are issued under our 2012 Multifamily Master Trust Agreement.

The [Master Trust Agreement](#), together with its exhibits and supplements, is the principal authority that defines the rights and responsibilities of Fannie Mae and of the MBS certificate holders in relation to each MBS trust created under that particular master document. In general, the Trust Agreement sets forth the terms related to the MBS issuance, the loans or participation interests in the MBS pool, and the payment terms for the MBS certificates.

All Multifamily MBS are offered pursuant to our [Multifamily MBS Prospectus \(or DMBS Prospectus\)](#), which describes the general terms of the Multifamily MBS program, the general characteristics of the Multifamily MBS, the policies for purchasing delinquent

loans out of MBS trusts, and other important aspects of our Multifamily MBS program. Additionally, the related prospectus supplement narratives and schedules and other Fannie Mae disclosure documents are accessible online.

## Multifamily Securities Locator Service

Investors can obtain comprehensive information about the performance of the loans backing multifamily MBS and related delinquency statistics via our [Multifamily Securities Locator Service](#).

By entering the multifamily pool number or searching for a security by type of pool, issue date, pass-through rate, or pool prefix, an investor can quickly obtain at-issuance disclosure documents for a specific security. Extensive pool information, such as factors, loan details and weighted-average statistics are also available. See the following example of the loan information backing the multifamily DUS MBS 10/9.5 pool 470420.

## Multifamily Securities Locator Service – DUS MBS 10/9.5 Pool 470420

Home | Register | Glossary | Contact Us | Log In | Legal | Privacy

Quick Search:

**Notice(s) for Pool # 470420**

- If the interest on the related mortgage loan is calculated on an actual/360 basis, for purposes of calculating the pass-through rate with respect to an interest accrual period during which other than 30 days' interest accrued on such mortgage loan, the related MBS pass-through rate will be converted to a 30/360 equivalent rate. Consult the Schedule of Loan Information, which is a part of the relevant Prospectus Supplement, to ascertain whether the related mortgage loan has an interest basis of actual/360 or 30/360.

Return to Search Results

**Pool #:** 470420 Export

Click here to display/hide updates

**Pool Information** | Loan Information | Collateral Information | At Issuance Documents

Loan level information is as of the MBS payment date occurring two months prior to the most recent MBS payment date.

Fannie Mae Loan Number

Fannie Mae Loan Number	Original Loan Term (Months)	Maturity Date	Issuance Note Rate	Issuance UPB	First Payment Date	Delinquency Status (Days)
1715546763	120	02/01/2022	4.1400%	\$12,450,000.00	03/01/2012	0

**Details**

Loan Information	
Tier:	2
Tier Drop Eligible:	No
% of Initial Pool Balance:	100.0000
Lien Position:	1st
DSCR:	1.31
DSCR (IO/ARM):	1.31
LTV:	74.8%
Balloon:	Yes
Additional Liens:	No
Mezzanine Financing:	No
Prepayment Premium:	Yes

Note Rate Details	
Note Date:	01/10/2012
Original Note Rate:	Not Available
Current Note Rate:	4.1400%
Current Pass-through Rate:	3.12000%
Issuance Pass-through Rate:	3.02000%

Balance Details	
Current Scheduled UPB:	\$12,450,000.00
Issuance UPB:	\$12,450,000.00

Prepayment Premium Details	
Lockout Term (Months):	Not Applicable
Lockout End Date:	Not Applicable
Prepayment Premium Option:	Yield Maintenance - CMT
Prepayment Premium Term (Months):	114
Prepayment Premium End Date:	07/31/2021
Yield Maintenance Security Rate:	Not Applicable
Security Due Date:	Not Applicable

Payment Details	
First Payment Date:	03/01/2012
Payment Date:	03/2012
Delinquency Status (Days):	0

Amortization Details	
Original Amortization Term (Months):	360
Interest Type:	Fixed
Interest Accrual:	Actual/360
Interest Only Indicator:	Yes
Interest Only Period (Months):	24
Interest Only End Date:	02/01/2014

Investors can determine a DUS 10/9.5 pool if:

1. Original Loan Term (Months) = 120

AND

2. Prepayment Premium Term (Months) = 114

<sup>8</sup> ARM subtypes are alphanumeric codes that identify the ARM product characteristics such as index, initial fixed-rate period, rate and payment adjustment frequency, caps, convertibility and other features. In addition, customized prepayment lock-out and prepayment fee restrictions can be included in these securities.

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### **New Issue Pool Statistics**

Investors looking for daily issuance information about multifamily MBS can locate this information on the New Issues Pools Statistics File (NIPS). For pools closed the previous day, the NIPS file contains useful information for investors that includes, but is not limited to, the pool number, CUSIP, issue date, Fannie Mae pool prefix, pass-through rate (PTR), weighted-average coupon (WAC) weighted-average maturity (WAM), maturity date, unpaid principal balance (UPB), and loan-to-value ratio.

### **New Issues Loan and Collateral Statement**

Investors can view the at-issuance loan and collateral data for Multifamily Delegated Underwriting and Servicing (DUS) and Negotiated Transactions (NT) MBS pools published the prior day.

### **Multifamily DUS Prepayment History Report**

This report includes a view of prepayment activity by original balance and loan count presented in several different data categories. The report shows active loans and liquidated loans acquired from January 2000 to the stated calendar quarter for each given category. It also includes the type of prepayment, including voluntary and involuntary prepayment, as well as loans that have paid at maturity.

The data categories in the reports are as follows:

- Origination Vintage
- Loan Term at Origination
- Loan Size at Origination
- Original Loan-to-Value
- Geographic Region – Midwest, Northeast, Southeast, Southwest, and West
- Multifamily Asset Class – Conventional/Coop/Affordable, Seniors, Dedicated Student, and Manufactured Housing Communities

Investors, researchers, and other market participants can use this information to analyze the performance of Multifamily MBS and whole loans including prepayment behavior, credit performance, and other multifamily market trends. This provides investors insight into the credit performance of the Multifamily DUS fixed-rate loan business and may help in analyzing the risks associated with an investment in Multifamily MBS.

### **GeMS Collateral Performance Analysis Report**

The Fannie Mae GeMS™ Collateral Performance Analysis Report facilitates analysis of the prepayment behavior of Fannie Mae GeMS by compiling certain Fannie Mae disclosures related to prepayments in a single report. The Fannie Mae GeMS report is published once a month as a text-formatted file (.txt), and provides the following data attributes for each MBS pool backing specific GeMS REMICS and GeMS Megas:

- Fannie Mae GeMS Deal
- MBS Pool Number
- CUSIP
- Current Mortgage Factor
- Yield Maintenance Factor
- Paydown Record Date
- Whether or not the pool contains a delinquent loan and if so, how many days delinquent the loan is reported to be.

### **Monthly Yield Maintenance Factor Report**

Investors can obtain monthly factor information for use in calculating the amount of yield maintenance that will be passed through to the investor for those DUS MBS that paid yield maintenance in the current month. To calculate yield maintenance, an investor should multiply the factor published in the Monthly Yield Maintenance Factor Report by the original unpaid principal balance of the MBS that they hold in order to determine their portion of the yield maintenance prepayment premium. This information is published on or around the fifth business day each month and contains the record date, payment date, CUSIP, pool prefix, pool number, and yield maintenance factor for each applicable multifamily MBS.

### **MBS Loan Level Delinquency 60-Plus Days Report**

Investors can obtain a list of multifamily loans backing MBS that are at least 60 days delinquent in payment of monthly principal and interest, as reported by the servicer. The MBS Loan Level Delinquency report is published around the sixth business day of the month and reports data as of the prior month. This report reflects delinquency information within one month of Fannie Mae being notified by the servicer that a loan is 60-days delinquent.

For example, a current month report dated December 2011 would be posted on or around January 10, 2012 and would display delinquency data with a November 1, 2011 “as of date”. If the borrower made a monthly principal and interest payment on September 1, 2011, but failed to make monthly principal and interest payments due on October 1, and November 1, the report would list the loan as being 60 days delinquent in December 2011.

### **Multifamily Loan Level Detail Information**

Fannie Mae provides a loan level detail report on a monthly basis, which contains data related to certain loans backing specified currently outstanding multifamily Fannie Mae MBS. For each loan backing Fannie Mae multifamily MBS, this report provides the loan number, pool number, the city, state, and zip code of the properties’ address, the current unpaid principal balance and the initial interest rate. This report is generally made available during the first to fifth business day of the following month and can be found on our web site.

### **Fannie Mae Quarterly Credit Supplement**

Fannie Mae publishes a Quarterly Credit Supplement as part of our 10-Q and 10-K. This Supplement provides investors detailed information about the credit performance of multifamily securities and other aspects of Fannie Mae’s business.

### **Other Multifamily MBS Resources for Market Participants**

Information about Fannie Mae multifamily MBS is easily obtainable from a number of other sources as well:

On the Web: [www.fanniemae.com](http://www.fanniemae.com)

By email at: [fixedincome\\_marketing@fanniemae.com](mailto:fixedincome_marketing@fanniemae.com)

By Investor Helpline: 1-800-2FANNIE, Option 2

By mail: Fannie Mae

c/o Fixed-Income Securities Marketing,  
Mailstop 2H-3S/17  
3900 Wisconsin Avenue, NW  
Washington, DC 20016-2892

## Top Fannie Mae Multifamily Disclosure Web Site Links

### Multifamily Securities Locator Service

Provides pool information, loan information, collateral information, and at-issuance documents (including the Schedule A, Base Prospectus, Prospectus Supplement Narrative, and Pool Statistics) for a specific pool or CUSIP.

<https://fapt.efanniemae.com/MFSecuritiesLocator/jsp/general/welcome.jsp>

### New Issues Pool Statistics (NIPS)

Provides daily issuance information, including the pool number, CUSIP, issue date, Fannie Mae pool prefix, pass-through rate (PTR), weighted-average coupon (WAC) weighted-average maturity (WAM), maturity date, unpaid principal balance (UPB), and loan-to-value ratio.

<https://mbsdisclosure.fanniemae.com/PoolTalk2/index.html>

### New Issues Loan and Collateral Statement

Provides daily at-issuance loan and collateral data for MF MBS pools published the previous 30 days.

<https://mbsdisclosure.fanniemae.com/PoolTalk2/index.html>

### DUS Prepayment History Report

Provides a view of prepayment activity by original balance and loan count presented in several different data categories.

<http://www.fanniemae.com/portal/funding-the-market/mbs/multifamily/dusprepayment-history.html>

### Yield Maintenance Factor File

Provides monthly factor information for use in calculating the amount of yield maintenance that will be passed through to investors in the current month.

<http://www.fanniemae.com/portal/jsp/mbs/data/multifamily/yieldmaintenance.html>

### MBS Loan Level Delinquency 60-Plus Days Report

Provides a list of multifamily loans backing an MBS that are at least 60 days delinquent in payment of monthly principal and interest.

<http://www.fanniemae.com/portal/jsp/mbs/data/multifamily/delinquencyreport.html>

### Multifamily Loan Level Detail Report

Provides data related to certain loans backing specified currently outstanding multifamily Fannie Mae MBS. For each loan backing Fannie Mae multifamily MBS, this report provides the pool number, the city, state, and zip code of the properties' address, the current unpaid principal balance and the initial interest rate.

<http://www.fanniemae.com/portal/jsp/mbs/data/multifamily/loanleveldetail.html>

### Multifamily Master Trust Agreements and Trust Indentures

Provides a link to the Trust Agreements and Trust Indentures for Fannie Mae MBS, both single-family and multifamily.

<http://www.fanniemae.com/portal/jsp/mbs/documents/mbs/trustindentures/index.html>

### Multifamily Prospectuses

Provides a link to all Fannie Mae MBS Prospectuses, both single-family and multifamily.

<http://www.fanniemae.com/portal/jsp/mbs/documents/mbs/prospectus/index.html>

### Defeased Loans

Provides a list of pools that contain at least one loan that has defeased, by reference to pool number and Fannie Mae Loan Number. The file is updated on or before the 10th business day of each month and will contain defeased loans for the preceding month.

<http://www.fanniemae.com/mbs/data/multifamily/defeasedloans.jhtml>

### Fannie Mae GeMS Archives

This page provides links for News Releases and Term Sheets for GeMS deals beginning from January 2011.

[http://www.fanniemae.com/mbs/mbsmultifamily/gems\\_archive.jhtml](http://www.fanniemae.com/mbs/mbsmultifamily/gems_archive.jhtml)

### GeMS Collateral Performance Analysis Report

Provides a list of collateral for each Fannie Mae GeMS deal since January 2011. The report includes the current factor and whether or not the pool contains a delinquent loan, and if so, the number of days delinquent.

<http://www.fanniemae.com/portal/funding-the-market/mbs/multifamily/gems-report.html>

### Fannie Mae Credit Supplement

Fannie Mae publishes the Credit Supplement quarterly as part of the 10-Q and 10-K. This provides detailed information about the credit performance of multifamily securities.

<http://www.fanniemae.com/portal/about-us/investor-relations/quarterly-annual-results.html>

## TIPS: Bloomberg and Fannie Mae MBS/DUS

- To view security level information for a DUS pool on Bloomberg, type in the following: **FN (pool number) <MTGE> <GO>** and then type in **<DES>** for data including coupon, maturity date, current amount, and factor.

Pool Overview		Pool	FN 470420	BBGID	BBG002N3B7Z7	Information as of	Apr '12	
1) Summary	Type	(HY)	Actual / 360	Balloon Conv	Level pay	Issue Date	02/01/12	
2) Notes	Traits	IO, Balloon, ACT/360, Yield Maintenance					Maturity Date	02/01/22
3) Prepayments	Coupon	3.020					Balance	
4) Custom View	WAC	4.140					Factor	1.00000000
Involved Parties	WARM	358					Orig Amt	12,450,000
5) Originator	WALA	2					Curr Amt	12,450,000
6) Servicers	WAOLTV	75	WAOLS *	12,450,000		Prepayments	CPR	PSA
7) Sellers	WAOLTV (HPI)	75	MAX LS	12,450,000		1 Month	0.0	0
All Loans			WAOLT	120		3 Month	n.a.	n.a.
	Orig DSCR	1.31	Orig TPO	0		6 Month	n.a.	n.a.
			Curr TPO	0		1 Year	n.a.	n.a.
	# Loans	1	Delay	54 ( 24 )		Life	0.0	0
	Rem IO	23	Yield Maint	113		Top 3 States	%UPB	
	TRACE Eligible		Balloon	120		FL	100.0	
6) Send Bond	1 Mo	Apr'12	Mar	Feb	Jan	Dec'11	Nov	Oct
7) Export	CPR	0.0	0.0					

Fannie Mae is not responsible for the information appearing on the Bloomberg screens.

- To view the Schedule A for a DUS pool, perform Step 1 above and then select **“Notes”**. The Schedule A (Schedule of Loan Information) includes notable at-issuance data such as:

- Property Type;
- U.S. Treasury Yield Rate;
- Prepayment Premium Term;
- Interest Day Basis;
- Annual Net Operating Income;
- Loan-to-Value Percent;
- Debt Service Coverage Ratio;
- Tier; and,
- Property Characteristics:
  - Property City/State/Zip Code,
  - Total Number of Units,
  - Appraised Value,
  - Occupancy Percent and
  - Year Built.

Mortgage Notes		Pool Number	470420
1) Summary	Fannie Mae Loan Number	1715546763	
2) Notes	Fannie Mae Seller Number	221880706	
3) Prepayments	Lender Name (aka Seller Name)		
4) Custom View	Property Address City Name	Delray Beach	
Involved Parties	Property State Code	FL	
5) Originator	Property Postal Code	33445	
6) Servicers	Loan Issuance Upb Amount	\$12,450,000.00	
7) Sellers	Security Issue Date	2/1/2012	
All Loans	Original Note Rate Percent		
	Current Interest Rate Percent	4.1400	
	Loan Interest Accrual Method Code	Actual/360	
	Loan First Payment Due Date	3/1/2012	
	Loan Maturity Date	2/1/2022	
	Loan Lien Priority Code	1st	
	Loan First Pi Change Date		
	Loan First Interest Rate Change Date		
	Loan Next Scheduled Payment Change Date		
	Loan Next Scheduled Rate Change Date		

Fannie Mae is not responsible for the information appearing on the Bloomberg screens.

- To run simple cash flow analysis, perform Step 1 above and then type in **<QY> <GO>**. This Bloomberg screen defaults to the appropriate delay and seasoning for the loan and provides simple price yield analysis to maturity. To price the security to call, Bloomberg allows you to shorten the balloon date to the end of the yield maintenance period.

100-00 Price is fictitious				Mtge QY			
QUICK YIELD ANALYSIS							
FN POOL 470420 3.02%				PAGE 1 OF 12			
Price 100-00 100				Static Prepayment Assumption			
Yield (bond eq.) 3.059				BP <sub>32</sub> Mod Dur Val.01 dP/dY			
Yield (monthly) 3.040				.39 7.91 .079 7.93			
SETTLE 4/27/12 26 days accrued 0.2181				EFFECTIVE values for 100BP Bmk shift			
-spread 108.3BP				YLD CHG 100.0 .0 CPY YLD CHG 100.0 .0 CPY			
Macaulay Dur 8.03				108.3173 92.4295			
Avg Life 9.25				( STATIC ) 7.93 0.75 7.94			
Half Life 9.83				Mod Dur Convexity dP/dY			
CUSTOM				STATED (ACTUAL)			
Net 3.02	Gross 4.14	Prepay .0	CPY	Age 0: 2	record 2/ 1/12	payment n/a	delay
Svc: 1.120				Term 30: 0	WAM 29: 10	2/ 1/42	54 ( 24 )
				Lockout : 0	Balloon 9: 10	2/ 1/22	54 ( 24 ) @ 100
				IO 1: 11			
Valuation: <input checked="" type="checkbox"/> Prin <input checked="" type="checkbox"/> Int <input type="checkbox"/> Svc				Balloon or Lockout? <input checked="" type="checkbox"/> Enter Dates? <input type="checkbox"/>			
ACT/360 Interest? <input checked="" type="checkbox"/>				Plan 0 - LevelPay			

Fannie Mae is not responsible for the information appearing on the Bloomberg screens.

Fannie Mae exists to expand affordable housing and bring global capital to local communities in order to serve the U.S. housing market. Fannie Mae has a federal charter and operates in America's secondary mortgage market to enhance the liquidity of the mortgage market by providing funds to mortgage bankers and other lenders so that they may lend to home buyers. Our job is to help those who house America

# MBSenger®

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Fannie Mae Fixed-Income Securities Investor Helpline  
1-800-2FANNIE, Option 2

Helen McNally  
Manager, Fixed-Income Securities Marketing  
202-752-7704  
[helen\\_mcnally@fanniemae.com](mailto:helen_mcnally@fanniemae.com)

Ryan Hill  
Trader, Multifamily Capital Markets  
202-752-5647  
[ryan\\_hill@fanniemae.com](mailto:ryan_hill@fanniemae.com)



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