

Fannie Mae Variable Rate Bond Credit Enhancement Structured Swap

Affordable Transactions

BENEFITS TO BORROWER OF VARIABLE RATE BOND CREDIT ENHANCEMENT (BCE) — STRUCTURED SWAP:

Borrower needs:	Variable Rate BCE —Structured Swap delivers:
Long-term interest rate protection for variable-rate loans	Swap terms of no less than 10 years for Affordable (Non-LIHTC) transactions and 15 years for Affordable (4% LIHTC) transactions
Competitively priced interest rate swap	No less than 10 years for transactions without low income housing tax credits Swap pricing that is competitive with the cost of a stand-alone swap and the third party fee to credit enhance the swap
A hedging structure that is attractive to tax credit investors	A hedge instrument that synthetically fixes the interest rate during the full tax credit compliance period

PURPOSE:

Offers the ability to synthetically fix the interest rate on Fannie Mae DUS® Variable Rate Bond Credit Enhancement (“BCE”) transactions by allowing interest rate swaps from a designated provider as the Fannie Mae-qualified interest rate hedge.

Final swap rates will be locked as reflected in a Swap Trade Confirmation. Final loan amounts will be subject to resizing based on the final swap rate.

SWAP EXECUTIONS:

Floating-to-fixed payer interest rate swap meeting the requirements detailed herein. Structured Swaps may be spot or forward starting.

SWAP AMORTIZATION:

The Structured Swap will amortize in step with the Principal Reserve Fund (“PRF”) schedule associated with the bonds. The PRF rate used to calculate the PRF schedule must reflect the underwriting rate.

PLEASE NOTE: Forward-starting swaps will require separate credit support (letter of credit) for the swap during the construction period.

SWAP CREDIT SUPPORT:

The swap provider will accept the risk of early termination associated with the Structured Swap in exchange for a subordinate lien on the subject property, essentially maintaining the non-recourse nature of the transaction, and a guaranty providing for key principal recourse in the event of certain unacceptable (bad) acts.

SWAP INDEX:

Swaps on tax-exempt bonds will be based on the BMA Municipal Swap Index (now “SIFMA”).

Swaps on taxable bonds structured as taxable tails behind tax exempt bonds will be based on LIBOR.

SWAP DOCUMENTATION AND REVIEW:

Each swap transaction will require Fannie Mae outside counsel to review the following documentation related to the swap:

SWAP COUNTERPARTY:

The counterparty to the Structured Swap will be the individual property borrowing entity.

- Master Agreement (Standard Swap Agreement)
- Schedule to the ISDA Master Agreement
- Swap Trade Confirmation
- Subordinate Mortgage Documents

SWAP TERM:

MINIMUM TERMS FOR STRUCTURED SWAPS WILL BE:

Affordable BCE (4% LIHTC): 15 years

Non LIHTC: 10 years

UNDERWRITING GUIDELINES:

Variable rate BCE transactions underwritten using the Structured Swap interest rate will be subject to standard fixed rate BCE underwriting guidelines per the DUS Guide.

SWAP RATE:

RED Mortgage Capital, LLC (the “DUS lender”) will obtain indicative Structured Swap quotes. All swap quotes are subject to change until the swap trade is executed. Swaps are obtained through Kensington Capital Corporation.

The **Underwriting Interest Rate** for a variable rate BCE transaction utilizing a Structured Swap is comprised of the following:

STRUCTURED SWAP RATE:

Applicable transactions will be underwritten using the most recent swap rate quoted by the DUS lender. Swap rates may fluctuate and are subject to adjustment until the swap trade is executed. Final loan proceeds will be subject to adjustment until the swap trade is executed.

FEE STACK:

Includes all fees associated with a variable rate BCE transaction, including liquidity and remarketing fees.

BASIS RISK ADJUSTMENT:

Structured Swap underwriting requires a flat 5 bps add-on to account for the basis risk. This is not a fee, only an adjustment for purposes of underwriting.

FEE MAINTENANCE PERIOD:

10 years based on the Fee Maintenance schedule for variable rate bond transactions.

HEDGE ESCROWS:

Hedge escrow deposits will be required for the purchase of a subsequent hedge conforming to minimum DUS Guide standards. Escrow deposits will commence 5 years prior to the maturity date of the Structured Swap. No adjustment to the underwriting rate for a hedge escrow will be required.

SUBORDINATE DEBT:

For BCE swap transactions with subordinate debt financing, the subordinate debt provider's lien will be subordinate to the swap provider's lien position.

MONITORING REQUIREMENTS:

The DUS Lender will be required to service and monitor the borrower's obligations under the swap. All swap payments will flow through the DUS Lender.

For additional information visit www.redcapitalgroup.com or contact:

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In its prequalifying review, **RED Mortgage Capital, LLC** will attempt to estimate both the loan amount and the fees and costs associated with the transaction. Actual loan amounts and actual fees and expenses may vary from the prequalifying estimates. A prequalifying estimate is not a commitment to make a loan.