LIBOR Transition Playbook
Single-Family ARM

October 2020
2 Single-Family (“SF”) ARMs and Securities

2.1 Introduction

The GSEs have taken the following steps, under FHFA’s guidance, to prepare for the transition from LIBOR for SF ARMs:

- Updated existing uniform ARM notes and riders to include fallback and trigger language as recommended by the ARRC
- Announced that all LIBOR ARMs must be purchased by the GSEs no later than six months from the first payment date of the loan (Fannie Mae) or note date (Freddie Mac)
- Designed (in conjunction with the ARRC) new SF ARMs that use the NY Fed’s 30-day Average SOFR as the underlying index
- Announced:
  - December 1, 2020 as the last issue date for LIBOR-indexed ARM MBS/Guarantor PCs to be delivered to the GSEs with a latest LIBOR-indexed ARM settlement date of December 31, 2020
  - December 31, 2020 as the last date for cash/whole loan purchase of LIBOR-indexed ARMs
- Stopped accepting LIBOR ARMs with Application Received Dates after September 30, 2020
- Started discussing strategies for the transition of existing LIBOR-indexed ARMs

In addition, Fannie Mae began accepting delivery of SOFR-indexed ARMs on August 3, 2020, and Freddie Mac began underwriting SOFR-indexed ARMs on October 1, 2020.

The following chapter will help you understand:

- Key milestones for the SF ARM LIBOR transition
- Differences and similarities between LIBOR-indexed vs. SOFR-indexed ARMs
- How to prepare for origination, selling, servicing and securitization of SOFR-indexed ARMs
- How to prepare for the cessation of LIBOR-indexed ARM purchases and issuance of MBS/Guarantor PCs
- High-level considerations for transitioning existing LIBOR-indexed ARMs to an ARR

2.2 SF transition milestones

The GSEs have defined key dates related to the origination, commitment, pricing and delivery processes for SOFR-indexed ARMs, as well as dates for the cessation of LIBOR-indexed ARM purchases and related securitizations. The GSEs are also working with industry participants (e.g., the ARRC) to develop a unified recommended strategy to transition existing LIBOR-indexed ARMs to an ARR.
Additional details and milestones for existing loans will be provided as they become available. The subsequent timeline identifies key transition milestones for SF ARMs.

**Transition timeline**

<table>
<thead>
<tr>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1, 2020</td>
<td>GSE Selling Guide Announcements</td>
</tr>
<tr>
<td>March 2, 2020</td>
<td>NY Fed publishes index</td>
</tr>
<tr>
<td>June 1, 2020</td>
<td>Fallback language</td>
</tr>
<tr>
<td>September 30, 2020</td>
<td>LIBOR ARM applications end</td>
</tr>
<tr>
<td>October 1, 2020</td>
<td>Transition existing LIBOR ARM loans</td>
</tr>
</tbody>
</table>

**2.3 SOFR-indexed ARM characteristics**

❖ **LIBOR vs. SOFR ARMs**

The GSEs designed SF SOFR-indexed ARM products in conjunction with other members of the ARRC Consumer Products Working Group. These products are based on the 30-day Average SOFR index as published by the NY Fed. Sellers and Servicers are instructed to use the final/revised values of the index which are published daily at approximately 2:30 p.m. ET.

The primary features of SOFR-indexed ARMs and MBS/PCs that differ from LIBOR-indexed ARMs and MBS/PCs include:

- **Interest rate index**: 30-day Average SOFR
- **Initial fixed period**: varies, with a minimum initial fixed period of 3 years for SOFR-indexed ARMs
- **Interest rate adjustment period**: 6 months
- **Interest rate adjustment cap**: +/-1 percentage point (“%”) per subsequent adjustment period
- **Margin**: will likely differ due to basis and other market-based adjustments
- **New ARM plans**: introduced for SOFR (Fannie Mae)
- **New Cash Contract and Guarantor Pooling Products**: introduced to support SOFR-indexed ARMs (Freddie Mac)

The following table summarizes key product features for both SOFR and LIBOR ARMs:

<table>
<thead>
<tr>
<th></th>
<th>LIBOR ARMs</th>
<th>SOFR ARMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate index</td>
<td>1-Year WSJ LIBOR</td>
<td>30-day Average SOFR</td>
</tr>
<tr>
<td>Initial fixed period</td>
<td>1, 3, 5, 7 or 10 years</td>
<td>3, 5, 7 or 10 years (no 1-year initial fixed period)</td>
</tr>
<tr>
<td></td>
<td>LIBOR ARMs</td>
<td>SOFR ARMs</td>
</tr>
<tr>
<td>---------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Interest rate</strong></td>
<td>Changes every 1 year after initial fixed period</td>
<td>Changes every 6 months after initial fixed period</td>
</tr>
<tr>
<td><strong>adjustment period</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Lookback period</strong></td>
<td>New rate determined 45 days in advance</td>
<td>No change</td>
</tr>
<tr>
<td><strong>Cap at first</strong></td>
<td>+/-2% for 3- and 5-year ARMs; +/-5% for 7- and 10-year ARMs</td>
<td>No change</td>
</tr>
<tr>
<td><strong>adjustment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cap at subsequent</strong></td>
<td>+/−2%</td>
<td>+/-1%</td>
</tr>
<tr>
<td><strong>adjustments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Life cap</strong></td>
<td>Up to 5% for Fannie Mae; Up to 5% for Freddie Mac</td>
<td>No change for Fannie Mae 5% for Freddie Mac</td>
</tr>
<tr>
<td><strong>Margin (lender</strong></td>
<td>2.25% for Fannie Mae; Defined based on Execution for Freddie Mac</td>
<td>Up to 3% (Fannie Mae) Min 1%/Max 3% (Freddie Mac)</td>
</tr>
<tr>
<td><strong>discretion</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Fannie Mae has updated ARM plans and a Special Feature code (“SFC”) in support of the transition to SOFR, as detailed below:

<table>
<thead>
<tr>
<th></th>
<th>LIBOR ARMs</th>
<th>SOFR ARMs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ARM plans submitted</strong></td>
<td>Import: GEN3, GEN5, GEN7, GEN10</td>
<td>DU User Interface (“UI”): FM GENERIC, 3 YR, FM GENERIC, 5 YR, FM GENERIC, 7 YR, FM GENERIC, 10 YR</td>
</tr>
<tr>
<td>to Desktop Underwriter® (&quot;DU&quot;)</td>
<td></td>
<td>No change</td>
</tr>
<tr>
<td><strong>ARM plans submitted</strong></td>
<td>2720 through 2729, 2737 and 3252</td>
<td>4926, 4927, 4928, 4929</td>
</tr>
<tr>
<td><strong>Loan Delivery</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SFC for notes with fallback language</strong></td>
<td>785</td>
<td>None – all SOFR- ARM notes will contain fallback language</td>
</tr>
</tbody>
</table>

Freddie Mac has updated Cash Contract Products, Guarantor Security Products, Guarantor Product Types and an Investor Feature Identifier (“IFI”) in support of the transition to SOFR, as detailed below:

<table>
<thead>
<tr>
<th></th>
<th>LIBOR-indexed ARMs</th>
<th>SOFR-indexed ARMs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan Product</strong></td>
<td>1/1 1-Year LIBOR-ARM 2/2/6 3/1 1-Year LIBOR-ARM 2/2/5 or 6 5/1 1-Year LIBOR-ARM 2/2/5 or 6 7/1 1-Year LIBOR-ARM 5/2/5 10/1 1-Year LIBOR-ARM 5/2/5</td>
<td>3-Year 6-Month 30-day Average SOFR ARM 2/1/5 5-Year 6-Month 30-day Average SOFR ARM 2/1/5 7-Year 6-Month 30-day Average SOFR ARM 5/1/5 10-Year 6-Month 30-day Average SOFR ARM 5/1/5</td>
</tr>
<tr>
<td>Advisor®</td>
<td>No product information is submitted</td>
<td>No changes</td>
</tr>
<tr>
<td><strong>Contract products</strong></td>
<td>NonCnvrt 1/1 1-Year LIBOR-ARM 2/2/2-6 NonCnvrt 3/1 1-Year LIBOR-ARM 2/2/6-6 NonCnvrt 5/1 1-Year LIBOR-ARM 2/2/6-6 NonCnvrt 7/1 1-Year LIBOR-ARM 2/2-6</td>
<td>NonCnvrt 3-Year 6-Month 30-day Average SOFR ARM 2/1/5 NonCnvrt 5-Year 6-Month 30-day Average SOFR ARM 2/1/5 NonCnvrt 7-Year 6-</td>
</tr>
<tr>
<td>for Take Out ARM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Contract</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Security Products</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>for NonCnvrt</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
LIBOR-indexed ARMs | SOFR-indexed ARMs
--- | ---
Take Out ARM Guarantor Contract | NonCnvrt 7/1 1-Year LIBOR ARM 5/2/5-6  
NonCnvrt 10/1 1-Year LIBOR ARM 2/2/2-6  
NonCnvrt 10/1 1-Year LIBOR ARM 5/2/5-6 | Month 30-day Average SOFR ARM 5/1/5 NonCnvrt  
10-Year 6-Month 30-day Average SOFR ARM 5/1/5
Product types for Take Out ARM Guarantor Contract | 1/1 ARM LIBOR  
3/1 ARM LIBOR  
5/1 ARM LIBOR  
7/1 ARM LIBOR  
10/1 ARM LIBOR | 3/6 SOFR ARM  
5/6 SOFR ARM  
7/6 SOFR ARM  
10/6 SOFR ARM
IFI for notes with fallback language | J23 | None – all SOFR ARM notes will contain fallback language

For more background on how the new SOFR-indexed ARM was developed, refer to the Options for Using SOFR in Adjustable Rate Mortgages published by the NY Fed in July 2019.

❖ Additional SOFR ARM details

SOFR index calculation

SOFR-indexed ARMs are based on the 30-day Average SOFR index, as published by the New York Federal Reserve Bank. The 30-day Average SOFR index is a compounded average of overnight SOFR over the preceding 30 calendar days.

Index source

The NY Fed publishes the 30, 90, and 180-day compounded SOFR averages daily.

Interest rate calculation

There is no change as to how the borrower interest rate will be calculated when using 30-day Average SOFR.

2.4 Preparation for SF SOFR ARMs

❖ Originating and underwriting SF SOFR ARMs

Generally, the processes for originating and underwriting SOFR ARMs will be like the existing processes used to originate and underwrite ARMs tied to any other index, and all existing conventional ARM requirements will apply to SOFR ARMs.

Key concepts

The GSEs have made or are in the process of making multiple specification updates in the latest versions of their automated underwriting systems ("AUS") in support of SOFR ARMs, including adding a new enumeration to represent the use of 30-day Average SOFR.

Fannie Mae has applied the specification updates noted below to DU Specification MISMO 3.4 (DU Spec), while Freddie Mac applied specification updates to Loan Product Advisor specifications v4.8.01. Loan Product Advisor v5.0.06 will be available beginning January 1, 2021 with mandated usage by March 1, 2021. Other existing data requirements (e.g., for margin and index value) will still be required unless otherwise noted.
Lenders should note the following AUS updates when preparing for the origination and underwriting of SOFR-indexed loans.

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Fannie Mae SOFR ARMs</th>
<th>Freddie Mac SOFR ARMs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Update timeline</strong></td>
<td>Specification updates complete</td>
<td>Loan Product Advisor v. 4.8.01 updates complete Loan Product Advisor v5.0.06 available January 1, 2021; mandated March 1, 2021</td>
</tr>
<tr>
<td><strong>AUS version</strong></td>
<td>DU Specification MISMO 3.4 (DU Spec)(^1)</td>
<td>LPA v4.8.01 and v5.0.06</td>
</tr>
<tr>
<td><strong>Enumerations</strong></td>
<td>“30DayAverageSOFR” added for IndexSourceTypeDescription</td>
<td>“30DayAverageSOFR” to be added for IndexSourceTypeDescription</td>
</tr>
<tr>
<td></td>
<td>▪ <strong>Note:</strong> Use of enumeration is optional, as DU does not require identification of a specific ARM index for underwriting evaluation</td>
<td></td>
</tr>
</tbody>
</table>
| **ARM index** | Populate IndexSourceType using “Other” in DU | Lenders to use the following data points in Loan Product Advisor:  
  o IndexSourceType = “Other”  
  o IndexSourceTypeOtherDescription = “30DayAverageSOFR” |
| | Users have the option to populate IndexSourceTypeOtherDescription with “30DayAverageSOFR” | The data point IndexSourceType will continue to be required for all ARMs |
| **ARM plan data** | Users are still required to submit ARM plans in DU for underwriting evaluation | N/A |
| | Submit generic ARM plans using the InvestorProductPlanIdentifier field | |
| | Do **not** submit lender ARM plan data or SOFR ARM plan numbers | |

In addition, Lenders should note the following with respect to Uniform Mortgage Data Program (“UMDP”) requirements:

- No updates are necessary for the Uniform Loan Application Dataset (“ULAD”), since ARM indexes are not displayed on the Uniform Residential Loan Application (“URLA”)
- There are no planned updates for the Uniform Closing Dataset (“UCD”)
- The new SOFR index will be delivered using IndexType = “Other” and IndexTypeOtherDescription = SOFR
- Data point names for each GSE’s AUS vs. the UCD are different

\(^1\)Fannie Mae’s EarlyCheck system also uses the DU input file. The guidance provided for DU submissions is also applicable to EarlyCheck.

For more information on existing SOFR impacts on UMDP requirements, refer to this link.
### Actions to consider

<table>
<thead>
<tr>
<th>Focus area</th>
<th>Actions to consider</th>
</tr>
</thead>
</table>
| Documentation                             | ▪ Update FAQs and borrower ARM disclosure documentation  
▪ Update closing instructions and/or train closing agents, escrow agents and closing attorneys  
▪ Review updated procedures for printed vs. eNotes  
▪ Test printing of all updated documents (e.g., notes, riders, Closing Disclosure, other disclosures)  
▪ Update training manuals for origination staff including originators, processors, underwriters, closers, post-closers, and QC  
▪ Update broker and correspondent lending training manuals, policies and documentation |
| Lender systems, processes and training    | ▪ Maintain awareness of new field options for standard ARM enumerations (e.g., index type and rate reset period)  
▪ Update Loan Origination System (“LOS”) /vendor systems with new SOFR ARM-related enumerations  
▪ Update LOS product, eligibility and pricing rules  
▪ Develop and implement pricing, hedging and execution strategies  
▪ Provide training for staff including originators, processors, underwriters, closers, post-closers and QC  
  o SOFR adjusts every 6 months, not every year  
  o The minimum initial fixed period for SOFR loans is three years  
▪ Provide communications and/or training for brokers, correspondents, eNote vaults, electronic registries, Document Preparation (“Doc Prep”) and other third-party vendors |
| GSE systems                               | ▪ Directly integrated lenders, LOS and other third-party vendors should coordinate with each GSE to update their interfaces to accommodate new SOFR ARM products |
| Document custodian                        | ▪ Be aware that as part of the note certification process, the GSEs will require that the Custodian verify, for ARM Notes with the revision date “(rev. 2/20)”, the Lifetime Floor is equal to the ARM’s Margin as stated in the note; if it does not, the discrepancy will be reported as a documentation issue and the Note will not be certified for sale  
▪ This information is reflected in Fannie Mae’s ARM Plans, and an annual update of Freddie Mac’s Document Custody Procedures Handbook will reflect this |
For more information on origination and underwriting, refer to the following resources:

**Fannie Mae**
- ARM Plan Matrix
- ARM Note Riders and Addenda
- Legal Documents web page

**Freddie Mac**
- Freddie Mac’s Guide Chapter 4401

❖ Selling and delivering SOFR ARMs

Generally, the processes for selling and delivering SOFR ARMs will be like the existing processes used to sell and deliver ARMs tied to any other index. Sellers should expect to see additional dropdown options available in GSE systems to reflect the addition of new SOFR offerings, as applicable.

All existing, conventional ARM requirements will apply to SOFR ARMs, including existing Uniform Loan Delivery Dataset (“ULDD”) requirements. For more information on existing UMDP requirements as well as updates to support the transition to the SOFR ARM index, refer to this link.

**Key concepts**

The GSEs have updated their respective ULDD specifications in support of SOFR ARMs, like updates made for AUS specifications. Users should note the following updates when preparing to sell SOFR-indexed loans to the GSEs.

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Fannie Mae SOFR-indexed ARMs</th>
<th>Freddie Mac SOFR-indexed ARMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Update timeline</td>
<td>Loan Delivery system updates available August 3, 2020</td>
<td>Loan Selling Advisor system updates available November 9, 2020</td>
</tr>
</tbody>
</table>
| Enumerations        | “30DayAverageSOFR” added to IndexSourceTypeDescription                                      | “Other” added to IndexSourceTypeDescription
| ARM index data      | The new index will be delivered using IndexSourceType = “Other” plus IndexSourceTypeOtherDescription = “30DayAverageSOFR” | IndexSourceTypeDescription added as a data point
|                     | The new index will be delivered using IndexSourceType = “Other” plus IndexSourceTypeOtherDescription = “30DayAverageSOFR” | The new index will be delivered using IndexSourceType = “Other” plus IndexSourceTypeOtherDescription = “30DayAverageSOFR” |
### Requirements

<table>
<thead>
<tr>
<th></th>
<th>Fannie Mae SOFR-indexed ARMs</th>
<th>Freddie Mac SOFR-indexed ARMs</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARM plan data</td>
<td>Sellers should submit one of the published SOFR ARM plan numbers in the ULDD sent to Loan Delivery and/or EarlyCheck; do not submit “Lender ARM Plan” or DU generic ARM plans</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The GSEs have also updated reference product labels, ARM plans, subtypes and pool prefixes as applicable for new SOFR-indexed loans and securities. Refer to the “Securitization of SF SOFR ARMs” section below for more detail.

### Actions to consider

**Focus areas**

- **Seller systems, processes and training**
  - Train Capital Markets/Secondary Marketing staff to use new pricing screens available for SOFR ARM whole loan commitments, including guaranty fee amounts (“G-fee” amounts for Fannie Mae and Credit Fee in Yield amounts for Freddie Mac)
  - Identify source for current SOFR rates and update internal system feeds
  - Ensure SOFR-indexed ARM interest rates are distributed via all existing methods to all channels
  - Update LOS product, eligibility and pricing rules
  - Develop and implement pricing, hedging and execution strategies
  - Provide training for staff (e.g., capital markets/secondary, post-closers, shippers and investor relations) on all aspects of new products
  - Provide communications and/or training for brokers, correspondents, document custodians, warehouse lenders, disbursement agents, eNote vaults, electronic registries, document file preparers and other third-party vendors
  - GSEs’ loan delivery UIs are available for manual data entry, if needed

- **GSE systems**
  - Maintain awareness of how SOFR ARM characteristics are reflected in existing pricing execution, committing and delivery applications:
    - Pricing menu options for cash execution
    - G-fee pricing menu options for MBS execution
    - Additional options for enumerations and ARM Plans (Fannie Mae only) for SOFR-indexed ARM loans
    - Additional Cash Contract Products, Guarantor Security Products, and Guarantor Product Types for SOFR-indexed ARMs (Freddie Mac only)

### Helpful links

For more information on LIBOR transition impacts to selling and delivering SOFR ARMs, refer
to:

**Fannie Mae**
- [Fannie Mae’s Selling Guide](#)

**Freddie Mac**
- [Freddie Mac’s Seller/Servicer Guide](#)

❖ **Securitization of SF SOFR ARMs**

The GSEs have developed new pool prefixes, subtypes and documentation language to support the securitization of SOFR-indexed ARMs. Impacted parties should be ready to operationalize these changes when involved in the purchase, trading or investor reporting of SOFR MBS/PCs and Megas/Giants.

**Key concepts**

The GSEs are introducing new prefixes and subtypes for MBS/Megas and PCs/Giants as outlined in the subsequent chart:

<table>
<thead>
<tr>
<th>Product description</th>
<th>Fannie Mae</th>
<th>Freddie Mac</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prefix</td>
<td>ARM plan numbers</td>
</tr>
<tr>
<td>3 Year</td>
<td>SO</td>
<td>4926</td>
</tr>
<tr>
<td>5 Year</td>
<td>SO</td>
<td>4927</td>
</tr>
<tr>
<td>7 Year</td>
<td>SO</td>
<td>4928</td>
</tr>
<tr>
<td>10 Year</td>
<td>SO</td>
<td>4929</td>
</tr>
</tbody>
</table>

Freddie Mac will use the existing pool prefix for 30-day Average SOFR ARM Giant PCs.

<table>
<thead>
<tr>
<th>Product description</th>
<th>Prefix</th>
<th>Pool number range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various indices, WAC ARM Giant</td>
<td>84</td>
<td>840001-849999</td>
</tr>
</tbody>
</table>

In addition, the 30-day Average SOFR Hybrid ARM Index codes have been created by each GSE for MBS/PC and Mega/Giants disclosure purposes:
- Fannie Mae has reflected a new index code (061) and new subtypes in its Single-Family MBS Disclosure Guide and [Subtype webpage](#).
- Freddie Mac has added code 61 for 30-day Average SOFR. This Index code will be disclosed via the existing disclosure field for loan level (ID L-046) and security level (ID S-51). Refer to the [Single-Family Disclosure Guide](#) for disclosure file details.

SF legal documentation, including MBS Disclosures, Prospectus and Prospectus Supplements have been and/or will be updated to include SOFR as an index.
Eligible collateral for Freddie Mac new issue ARM Giant PCs

The 45-day Fixed-rate and 75-day ARM Giant Collateral Prefix Eligibility Chart has been updated to include 30-day Average SOFR-indexed ARMs. In addition, the existing ARM Giant PC pooling rules are available on Freddie Mac’s Mortgage-Backed Securities website. It is not expected that changes to the ARM Giant PC pooling rules will be necessary to accommodate SOFR ARMs.

Actions to consider

<table>
<thead>
<tr>
<th>Focus areas</th>
<th>Actions to consider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documentation</td>
<td>▪ Note updates to base language in prospectus documents, including new index codes</td>
</tr>
<tr>
<td>GSE systems</td>
<td>▪ Note the inclusion of a new pool prefix, subtypes and index code to represent new SOFR ARM characteristics</td>
</tr>
</tbody>
</table>

Helpful links

For more information on LIBOR transition impacts on securitization of SOFR ARMs, refer to the following resources:

Fannie Mae

▪ [Fannie Mae’s Pool Prefix Glossary](#)
▪ [Fannie Mae’s ARM MBS Subtypes](#)
▪ [Fannie Mae’s updated MBS Prospectus language](#)

Freddie Mac

▪ [Freddie Mac’s Prefix Library](#)

Servicing SF SOFR ARMs

While a new underlying index will be used to calculate borrower payments, the calculations themselves will not change.

Key concepts

Servicers will need to incorporate the new SOFR index into calculations and reconciliations for borrower payments; however, the calculations are not changing.

Servicers will need to incorporate the SOFR index into their current rate and payment adjustment processes.
Actions to consider

<table>
<thead>
<tr>
<th>Focus areas</th>
<th>Actions to consider</th>
</tr>
</thead>
</table>
| Use of a new index in rate and payment calculations | ▪ Update and test systems, reporting and other processes or activities related to interest rate adjustment calculations to incorporate SOFR index product parameters  
▪ These include initial fixed period, current index value, margin, lookback period, and rounding method, plus the initial, subsequent and lifetime caps/ceilings and floors, underlying index, reset periods and subsequent caps |
| Transfer of servicing                            | ▪ Ensure that servicing transferees have the capability to service SOFR loans                                                                                                                                              |

Helpful links

For more information on LIBOR transition impacts on servicing of SOFR ARMs, refer to:

▪ [Fannie Mae’s Single-Family Servicing Guide](#)
▪ [Freddie Mac’s Seller/Servicer Guide](#)

❖ Cessation of purchase of SF LIBOR ARMs

As previously noted, the GSEs will no longer purchase LIBOR-indexed ARMs after December 31, 2020. Sellers should take note of the following as they continue to sell new LIBOR ARMs to the GSEs and monitor the risks of continuing to increase LIBOR exposure through the remainder of 2020.

Key concepts

▪ LIBOR ARMs seasoned more than 6 months are currently not eligible for sale to the GSEs.
▪ The mandate to utilize the updated uniform ARM notes and riders by June 1, 2020 applies to all existing ARMs (including LIBOR ARMs).
▪ The GSEs are not accepting LIBOR ARMs with Application Received Dates after September 30, 2020.
▪ The GSEs will only purchase LIBOR ARMs as whole loans for cash on or before December 31, 2020 (which may be securitized thereafter) or in exchange for securities provided the related MBS/PC pools have an issuance date on or before December 1, 2020.
▪ **Fannie Mae:** Sellers have been instructed to deliver SFC 785 for any non-SOFR-indexed ARMs with a note and rider containing new fallback language.
▪ **Freddie Mac:** Sellers have been instructed to deliver IFI J23 for any non-SOFR-indexed ARMs with a note and rider containing new fallback language.
## Actions to consider:

<table>
<thead>
<tr>
<th>Focus areas</th>
<th>Actions to consider</th>
</tr>
</thead>
</table>
| **Lender systems, processing, and training** | - Develop and implement processes to ensure LIBOR ARMs destined for GSE acquisition do not have an Application Received Date after **September 30, 2020**  
- Develop and implement processes to ensure LIBOR ARM loan applications in pipeline destined for GSE acquisition are:  
  o Closed and purchased by **December 31, 2020**  
  o Changed to another eligible product (review declination and counteroffer procedures)  
  
  *Note: pay special attention to LIBOR ARMs with an initial fixed period of one year; there is no comparable SOFR ARM.* |
| **Seller systems, processes and training** | - Develop and implement processes to ensure LIBOR ARMs originated through or acquired from brokers and correspondents and destined for GSE acquisition do not have an Application Received Date after **September 30, 2020**  
- Develop and implement processes to ensure LIBOR ARM loan applications from all channels destined for GSE acquisition are:  
  o Closed and sold to GSEs by **December 31, 2020**, or  
  o Changed to another eligible product (review lock transfer procedures)  
  
  *Note: Pay special attention to LIBOR-indexed ARM loans with an initial fixed period of one year; there is no comparable SOFR ARM.* |

- Expect to see removal of LIBOR-indexed ARM loan options from committing and delivery applications by **December 31, 2020**  
- Ensure SFC 785 (for Fannie Mae) and IFI J23 (for Freddie Mac) are provided at delivery for all non-SOFR-indexed ARMs with notes and riders that include the new fallback language (published on February 5, 2020 and mandated for ARMs with Note Dates on or after June 1, 2020)  
- This may require Loan Origination System LOS/LOS vendor updates and/or coordination with Doc Prep vendors.
### Focus areas

<table>
<thead>
<tr>
<th>GSE systems</th>
<th>Actions to consider</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>▪ Note that LIBOR ARM characteristics will no longer be reflected in existing pricing, execution and delivery applications, such as:</td>
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<tr>
<td></td>
<td>o Pricing menu options for cash execution</td>
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<td></td>
<td>o G-fee pricing menu options for guarantor execution</td>
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<td></td>
<td>o Index type and reset period menu options for loan delivery data sets</td>
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<tr>
<td></td>
<td>▪ <strong>Fannie Mae only</strong>: LIBOR ARM plans will be retired</td>
</tr>
</tbody>
</table>

### Helpful links

For more information on LIBOR transition impacts on the ability to sell and deliver LIBOR ARMs, refer to:

- [Fannie Mae’s Selling Guide](#)
- [Freddie Mac’s Seller/Servicer Guide](#)

### 2.5 Transitioning existing SF LIBOR ARMs

The GSEs are continuing to work with the ARRC to define the timing and strategy for transitioning legacy LIBOR ARMs to an ARR (i.e., SOFR). The GSEs are coordinating closely with FHFA on this important matter. Additional details (including details around servicing requirements, legal/document updates and other impacts) will be released as the timeline and strategy are finalized.

For updates on industry efforts to advance the legacy transition, refer to the [ARRC’s website](#)