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Freddie Mac Single-Family ARM LIBOR Transition FAQs

Under the guidance of FHFA, Fannie Mae and Freddie Mac are providing jointly prepared answers to frequently asked questions related to the GSEs' respective transitions away from LIBOR-indexed products to SOFR-indexed products. The Enterprise section answers high-level questions applicable to all products followed by Q&A sections specific to Single-Family adjustable-rate mortgages and PCs/MBS, Credit Risk Transfer transactions, Multifamily adjustable-rate mortgages and securities, Credit Risk Transfer transactions, and Collateralized Mortgage Obligations.*

Please be aware that the federal Adjustable Interest Rate (LIBOR) Act (LIBOR ACT) became law on March 15, 2022. As required by the Act, the Board of Governors of the Federal Reserve System (Federal Reserve Board) published regulations identifying benchmark replacement rates based on SOFR on December 16, 2022. The regulations published by the Federal Reserve Board were used as guidance for the answers provided by Fannie Mae and Freddie Mac in this document.

Summary of Changes

The table below details the list of changes since the June 2022 version of the Single-Family ARM FAQs published on the Fannie Freddie Mac website.

Section	Summary of change
January 2023	
Single-Family ARMs	Q22. Updated to state the GSEs' legacy LIBOR replacement rate selections for SF ARMs. Q23. Question added to state the location of the published replacement rates for legacy SF ARMs. Q25. Updated to incorporate the FRB’s final regulation for the LIBOR Act. Q27. Updated language regarding options for borrowers with LIBOR ARMs. Q28. Updated references to CFPB LIBOR Transition FAQs.

Single-Family Adjustable-Rate Mortgages (ARMs)

Q1. Is there an impact to Uniform Mortgage-Backed Securities (UMBS)?

No. UMBS are backed only by fixed-rate loans.

Q2. Can lenders still sell LIBOR-indexed Single-Family ARMs to the GSEs?

No. Effective January 1, 2021, the GSEs no longer purchase LIBOR ARMs.

Q3. What are the Single-Family SOFR ARM subtypes and prefixes?

The Single-Family SOFR ARM prefixes were communicated in Fannie Mae Lender Letter LL-2020-01[2] and Freddie Mac Bulletin 2020-9. In addition, the Fannie Mae Prefix Glossary, the Fannie Mae ARM MBS Subtypes, and the Freddie Mac Prefix Library (for Freddie Mac 75-day prefixes) have been updated. Please see the subtypes and prefixes on p.19 of the SF Chapter in the Enterprise LIBOR Transition Playbook (Playbook)

Q4. What SOFR rate is being used and where is the rate available for newly issued Single-Family SOFR-indexed ARMs?

The GSEs currently are using the 30-day Compound Average SOFR, which the New York Fed began publishing on March 2, 2020 on its website.

Q5. Why are the reset periods pegged at six months instead of traditional one-year reset?

With the shift to using a 30-day Compound Average SOFR in our new products, the ARRC white paper discusses how a 6-month reset would help mitigate the potential mismatch between the loan rate set in advance based on historical averages of SOFR relative to future changes in market interest rates.

Historical data indicates that an average of the overnight rate with a 6-month reset period is more comparable to subsequent movements in interest rates than LIBOR with an annual reset period.

Q6. Since the periodic reset period is six months, does this imply that there will be a 6-month term SOFR?

For the new SOFR-indexed ARM product, the index is the 30-day Average SOFR and the rate reset period is six months. The six-month rate reset period is unrelated to whether a Single-Family ARM product indexed to term SOFR will eventually be developed. The Enterprises do not have any plans to develop a Single-Family ARM product indexed to term SOFR. See Enterprise FAQ #14.

Q7. How are the SOFR and the 30-Day Compound Average SOFR rates calculated?

Please visit the New York Fed's website for detailed information about how the SOFR Rate is calculated. For information on how the 30-day Compound Average SOFR is calculated, click here.

Q8. Why is the periodic reset cap one percentage point?

The change of the reset period from a 12-month periodic reset to a 6-month periodic reset created the need to lower the periodic reset cap. This safeguards against unexpected payment increases and remains consistent with current market practices. As a result, even in a period of rapidly rising interest rates, a borrower's payment would not change by more than two percentage points a year – which is the prevailing market convention.

Q9. How is the lifetime floor determined since this is a field in the note that the Seller needs to populate?

Fannie Mae's *Selling Guide* and Freddie Mac's *Single-Family Seller/Servicer Guide* each dictate that the lifetime floor must equal the initial mortgage margin, which must be populated in the applicable fields in the note. Once set at origination, the lifetime floor will not change over the life of the loan.

Q10. What is the mortgage margin for new SOFR-indexed ARM offerings?

The new SOFR-indexed ARM products have a maximum mortgage margin of 3.00%. The ARRC recommends a mortgage margin between 2.75% and 3.00%.

Q11. Where can consumers find more information on SOFR-indexed ARMs and program disclosures?

The CFPB website contains up to date information on program disclosures as well as information on ARMs. It can be accessed here.

Q12. Do the GSEs use a 45-day lookback period for SOFR-indexed hybrid ARMs to determine the 30-day Average SOFR rate?

Yes, we use a 45-day lookback period.

Q13. Do the GSEs offer an assumability option for the SOFR-indexed ARM offerings?

Yes. SOFR-indexed ARM Notes and Riders that provide for assumption during the adjustable-rate period following the fixed rate period of the ARM are currently available.

Q14. When will the GSEs' respective systems be updated to reflect SOFR-indexed ARMs?

All systems have been updated to support new SOFR-indexed ARMs. As of August 3, 2020, Fannie Mae provided lenders with the ability to sell and/or securitize Single-Family SOFR-indexed ARMs. As of November 9, 2020, Freddie Mac provided lenders with the ability to sell and/or securitize Single-Family SOFR-indexed ARMs.

Q15. Did the GSEs make additional changes under the Uniform Mortgage Data Program (UMDP)?

The GSEs made updates to account for SOFR-indexed ARMs in the applicable UMDP datasets. See the joint announcement (Fannie Mae: UMDP announcement) (Freddie Mac: UMDP announcement) where the changes to the UMDP datasets were communicated.

Q16. Are SOFR-indexed ARMs available for cash and guarantor execution?

Yes. Sellers can deliver SOFR-indexed ARMs through cash or guarantor executions.

Q17. Why were the Single-Family LIBOR ARM Notes and Riders updated on February 5, 2020?

The GSEs updated the Single-Family LIBOR ARM Notes and Riders to reflect the fallback language that the ARRC recommended in preparation for the potential cessation of LIBOR.

While legacy Single-Family ARM contract language allows the GSEs and other noteholders to replace the LIBOR index, it does not provide specific guidance on how to make such a replacement. The ARRC's recommended fallback language is more robust because it clearly specifies what borrowers and investors should expect regarding when and how a replacement index will be chosen.

Q18. Were only the LIBOR Single-Family ARM Notes and Riders updated in February 2020 to include the ARRC recommended fallback language?

No. All GSE Single-Family ARM Notes and Riders were updated in February, not just LIBOR-indexed ARM Notes and Riders. In addition, on April 1, 2020, the GSEs published SOFR-indexed Single-Family ARM Notes and Riders that include the ARRC recommended fallback language. Currently, the only ARMs that the GSEs purchase are SOFR-indexed Single-Family ARMs.

Q19. Why was term SOFR not used for the new ARM product?

In April of 2020, the GSEs were tasked with creating a SOFR-indexed ARM offering using available rates. Accordingly, we designed the ARM offering using the existing 30-day Average SOFR, as published by the New York Fed. Term SOFR was not available at this time. The availability of term SOFR rates does not impact the 30-day Average SOFR ARM product. The GSEs do not have any plans to develop a Single-Family ARM product indexed to term SOFR.

Q20. Since there is not a specific mortgage margin associated with the SOFR ARM product, can loans with different mortgage margins be securitized in the same Fannie Mae MBS / Freddie Mac PC?

Yes, loans with varying mortgage margins may be securitized in the same Fannie Mae MBS / Freddie Mac PC or delivered into whole loan commitments.

Q21. Can the initial fixed rate on a SOFR ARM be lower than the mortgage margin?

Yes. However, the initial fixed rate cannot be lower than the margin minus the initial reset cap. For example, for a 5 year/6-Month SOFR-indexed ARM with a 3% margin and a 2% initial reset cap, the initial fixed rate cannot be lower than 1% (3% margin – 2% reset cap) during the first 5 years when the interest rate is fixed.

Please note that the lifetime floor, which must equal the initial mortgage margin, only applies during the adjustable-rate period. If the initial mortgage margin is 2.5% and the initial rate during the fixed-rate period is 1%, the lifetime floor for the interest rate is 2.5%, but that floor only applies during the life of the adjustable-rate period, not during the initial fixed-rate period.

Q22. Have you chosen a replacement index for Single-Family *legacy* LIBOR-indexed ARMs?

The Federal Reserve Board published final regulations on December 16, 2022 to implement the LIBOR Act. Consistent with the Federal Reserve Board's regulations and FHFA guidance, the GSEs will use the spread-adjusted term SOFR reference rates for consumer products to be administered and published by Refinitiv Limited and subject to a one-year transition period. The transition will occur immediately following the June 30, 2023 cessation of the publication of all remaining tenors of USD LIBOR by ICE Benchmark Administration Limited.

For consumer loans (Single-Family ARMs), the applicable LIBOR index will be replaced by the Federal Reserve Board selected benchmark replacement rate as follows:

1-month, 6-month and 1-Year LIBOR Indexes will be replaced by the applicable Term SOFR + the transition tenor spread adjustment. Different spread adjustments will apply for each tenor of LIBOR. The tenor spread adjustment is subject to a one-year phase-in period.

LIBOR Index	**1-Month**	**6-Month**	**1-Year**
Refinitiv Public Replacement Index Name	**Refinitiv USD IBOR Consumer Cash Fallback 1-Month (CME Term SOFR)**	**Refinitiv USD IBOR Consumer Cash Fallback 6-Month (CME Term SOFR)**	**Refinitiv USD IBOR Consumer Cash Fallback 12-Month (CME Term SOFR)**
Refinitiv Instrument Code (RIC)**	USDCFCFCTSA1M	USDCFCFCTSA6M	USDCFCFCTSA1Y
Replacement Index Details	1M CME Term SOFR + Transition Tenor Spread Adjustment	6M CME Term SOFR + Transition Tenor Spread Adjustment	12M CME Term SOFR + Transition Tenor Spread Adjustment
Rate	All-In	All-In	All-In
Feature	No Floor	No Floor	No Floor

** When Servicers access the historical rates published by Refinitiv Limited, the index reflected by the RIC in this table represents the "all-in", "no floor" replacement index.

Q23. Where are the replacement indices published?

Refinitiv Limited was selected by the ARRC to administer the USD LIBOR cash fallback rates. Refinitiv Limited began **publishing** prototype fallback rates on **September 21, 2022**. The applicable "all-in", "no floor" replacement index to be used by Servicers will be available on the Refinitiv USD IBOR Consumer Cash Fallbacks Summary **website** after June 30, 2023. Servicers will also be able to access historical USD LIBOR cash fallback rates on Refinitiv Limited's **website.**

Q24. What if I have LIBOR ARM Notes that have different index replacement language than the Fannie Mae/Freddie Mac Uniform Adjustable-Rate Notes?

Most Single-Family (consumer) LIBOR ARM Notes contain standard index replacement language stating that "If the Index is no longer available, the Note Holder will choose a new index which is based upon comparable information." Some servicers may be servicing legacy LIBOR loans that were closed on documents with different language relating to replacing the index. The GSEs have required their LIBOR ARM servicers to identify loans closed on such documents (non-standard documents) that provide for variations in selecting a replacement index or have no replacement index language, and to bring those loan provisions to the applicable GSE's attention as soon as possible. This requirement includes loans that require other Servicing data changes, such as changes to the mortgage margin, upon transition to the replacement index. There may be operational or other impacts based on the criteria prescribed in these non-standard documents. Servicers should work with their designated point(s) of contact at either GSE to work through next steps on how to resolve identified non-standard notes.

Q25. Could Single-Family LIBOR-indexed ARMs become fixed rate?

No. After June 30, 2023 when LIBOR is no longer available/published, LIBOR-indexed ARMs will be transitioned to the variable, spread-adjusted term SOFR reference rates administered and published by Refinitiv Limited as per the final rulemaking published by the Federal Reserve Board for the LIBOR Act.

Q26. What does the *legacy* Single-Family ARM fallback language say?

In many cases for loans owned by the GSEs, Fannie Mae's and Freddie Mac's legal documents allow for the applicable noteholder to choose a comparable alternative rate should the prevailing reference rate cease to exist. At the loan-level, the contract language determines the key decision-maker concerning the replacement index. Our uniform instrument (the Single-Family ARM note) contains a provision that, if an index becomes unavailable, we (as noteholder) have the authority and obligation to choose a successor index. The language is also described in the Fannie Mae Single-Family MBS Prospectus and Freddie Mac PC Offering Circular under ARM Indices.

The GSEs published updates to joint Fannie Mae/Freddie Mac uniform ARM notes and riders to incorporate the ARRC's recommended fallback language for newly originated ARMs. In our respective April 1, 2020 announcements, the SOFR-indexed ARM uniform notes with the ARRC fallback language were made available.

Q27. What are the options for individual borrowers with LIBOR ARMs?

As always, individual borrowers can choose to keep their LIBOR-indexed ARMs and proceed with the transition, seek to refinance into a fixed-rate or non-LIBOR-based product, or pay off their mortgage. For borrowers who choose to keep their LIBOR-indexed ARMs, servicers of GSE-owned loans will inform borrowers of the replacement index to be used on the LIBOR-indexed ARMs following the June 30, 2023 cessation of the publication of all remaining tenors of USD LIBOR by ICE Benchmark Administration Limited as per the details provided in Q22 and Q28.

Q28. Can Servicers provide disclosures to Borrowers based on the replacement index?

Until such time as both LIBOR becomes unavailable and a replacement index is chosen, we note that the CFPB has issued LIBOR Transition FAQs that indicate that borrower notices under Regulation Z "must reflect the legal obligations of the consumer and creditor when the disclosures are provided." CFPB LIBOR

Transition FAQs, Adjustable-Rate Mortgage Products, Question 6. Servicers should consult with counsel to ensure they provide accurate notices to borrowers prior to the legally effective change to the replacement index and in accordance with the terms of the Note. At a minimum, such notices should be sent on or after July 1, 2022 and prior to the related interest rate change date that sets the new interest rate based on the replacement index. However, the CFPB FAQs also state that servicers may provide additional information to borrowers about the LIBOR transition in addition to required regulatory disclosures.

Q29. Why did you retire the CMT ARM offerings – it appears the CMT index will continue to be published?

Under the guidance of FHFA, we retired the CMT ARM products in 2021. Our regulator prefers that we only use robust, IOSCO-compliant rates in current product offerings. In Fannie Mae Lender Letter LL-2021-05 and Freddie Mac Bulletin 2021-4, we announced that the GSEs will no longer purchase any CMT-indexed ARM that has an Application Received Date of July 1, 2021 or later. In addition, the GSEs will no longer purchase CMT-indexed ARMs on and after October 1, 2021, regardless of the Application Received Date or Note Date.

Summary of Prior Changes

Section	Summary of change
July 2020	
Single Family ARMs	Q3. Added link to the SF Chapter in the Playbook for easy reference. Q21. Added language to clarify where the fall back language applies.
August 2020	
Single Family ARMs	Q24 and Q25. Added as new questions.
September 2020	
Single-Family ARMs	Q7. replaced “adjustment” with ”reset” Q8, Q9 and Q25. Added the word mortgage before margin
October 2020	
Single-Family ARMs	Q14. Updated language to reflect that Loan Product Advisor is now available as of 10/1/2020 for underwriting of SOFR-based ARMs.
December 2020	
Single-Family ARMs	Q2, Q4, Q5 and Q6. Minor edits. Q7. Added a new question on how 30-day SOFR is calculated. Q20. Updated language to reflect December announcement on legacy replacement index.
April 2021	
Single-Family ARMs	Q2. Updated to reflect that GSEs no longer acquire LIBOR ARMs Q3, Q5, Q13, Q15, Q20, and Q27: cosmetic updates only Q7. Reworded existing information only Q14. Update to reflect that all systems have been updated to support SOFR-indexed ARMs Q16 and Q17. Updated to past tense and removed the second sentence in the response to Q17 because it is no longer applicable Q22 and Q25. Updated to add reference to CFPB LIBOR Transition FAQs Q24. Updated to add announcement of specific CMT-indexed ARM 2021 retirement dates Q27. Updated FAQ to clarify initial fixed rate and mortgage margin Q28. New FAQ to address Borrower Disclosures from Servicers
October 2021	
Single-Family ARMs	Q23. Updated Q&A to address usage of Term-SOFR

Section	Summary of change
June 2022	
Single Family ARMs	Q15 (from prior publication). Deleted, as the question is now outdated. Q19. Updated to incorporate Adjustable Interest Rate (LIBOR) Act update. Q20: Question added to reference Servicer Note Review